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CONTENTS

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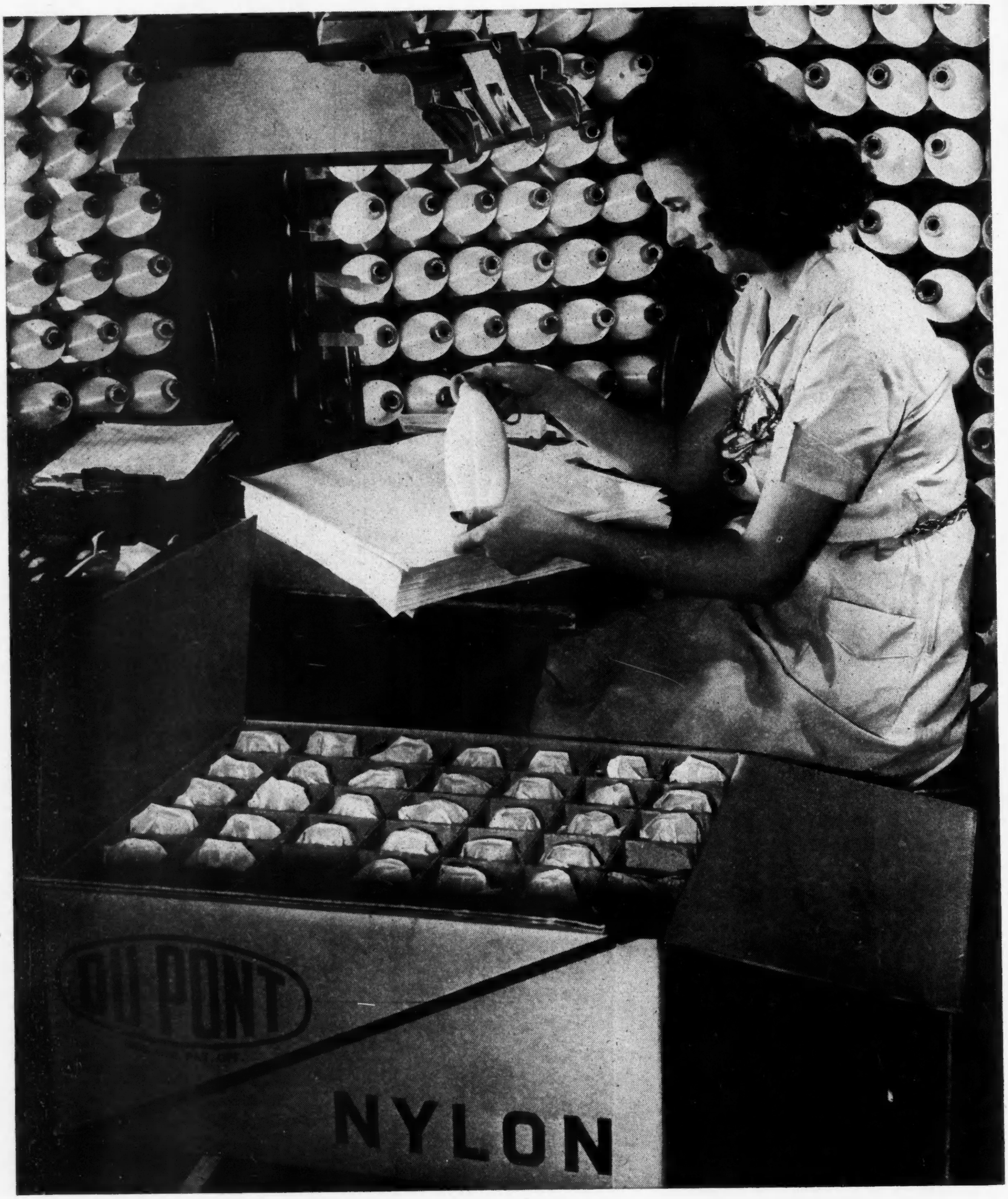
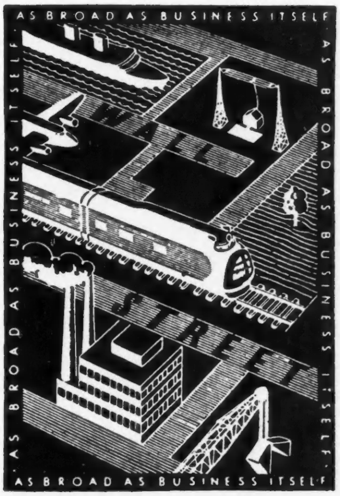
SYNTHETIC YARNS



Bobbins of Nylon yarn are carefully inspected before leaving the factory. Synthetic fibres are playing an increasingly important part in our lives, both in substituting for, and supplementing the natural fibres, and creating new and more beautiful fabrics for varied uses. These fibres in addition to stockings, are now being used to make upholstery materials and curtains washable with a damp cloth and a host of other uses too numerous to mention.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher*



The Trend of Events

UPWARD INVENTORY TREND—Announcement by the Department of Commerce that manufacturer's inventories during July had increased by more than $600 million has aroused a good deal of speculative controversy. The fact that the advance registered was record breaking for a single month and that total inventories held also struck a peak level of $18 billion is of course impressive on its face. But while the Department expressed no definite opinion as to the factors which occasioned the rise, they did point out that on an annual basis the uptrend in values established a rate of $7 billion. Furthermore, the hint was given that a slow-down in consumer buying might have been a contributing factor and that the inventory expansion indicated might be a symbol of growing inflation such as followed War I. Admittedly, the extent to which higher prices were an influence in the picture could not be determined.

More closely examined, however, factually correct as the large sums are they do not appear to warrant undue apprehension over the situation. Reduced to terms of percentage, the total inventory gain came to only about 3.4%. Considering that industry was struggling against abnormal odds in July to restore full productivity and that acquisition of essential materials and parts was on a catch-as-can basis, there can be little wonder that unbalanced inventories were a common occurrence. To suggest that the distortion could form a basis for annual estimates, accordingly, seems a bit far fetched.

Reaction of more than one industrial leader to the Washington comments tends to clarify the picture somewhat further. During the current summer first aim of hard pressed producers has been to fill the pipeline supplies, a process naturally causing an inventory build-up. In the event that a single one of thousands of needed parts has not been delivered to the factory, nearly completed items obviously could not be moved, with the result that values of goods in process were forced sharply higher. Fact seems to be that finished products moved rapidly off from the floors, to find their way to avid consumers. Finally, the percentage inventory gain discussed seems actually not at all out of line with mounting material costs. All said, the reported figures should give small ground for worry.

FOREIGN CURRENCY STABILIZATION—The $8.8 billion International Monetary Fund, after months of long preparation, is about ready to implement its significant program. Now two years of age, this body within the current month will take its first steps to establish monetary stability throughout the world, a move upon the success of which depends the fate of large scale world trade. With thirty-nine

nations already members of the organization and the door still open for Russia, not to mention former enemy-occupied countries such as Yugoslavia, China, Poland and Czechoslovakia, the experiment to be undertaken will create drastic changes on the monetary stage. Where formerly each nation enjoyed the prerogative of valuing its own currency, deflating it or inflating at will, henceforth to benefit from the provisions of the IMF it must bow to the decision of this body.

Such surrender of individual authority entails the birth of more far reaching economic controls by the parent organization, for to justify loans by it to its members of currencies like American dollars or pounds sterling at times when they are short, they must present evidence of domestic and foreign trade policies satisfactory to IMF. Although this resembles only sound banking practice, it will be a broad departure from former procedure, and in some instances may prove to be a hard pill to swallow.

The first and probably the most severe test in attempting to stabilize fluctuating currencies will be the forthcoming call upon all nations to furnish the Monetary Fund with complete information about their fiscal and economic status within ninety days. Unless this data is presented, par values for their money cannot be established. Little doubt exists, however, that prompt response to the requests will be given, for once worldwide monetary stability is achieved, international trade should expand as never before.

FIRST YEAR OF TRANSITION—The view of reconversion during the first full year of peace discloses aspects which hardly tend to stimulate the national pride, or for that matter to enhance foreign opinion of our superior processes. As a recent number of the Guaranty Survey issued by the Guaranty Trust puts it quite frankly, "It is a record of opportunities lost through ill-advised efforts to prevent by arbitrary decision, natural and necessary economic adjustments." Despite the extraordinary achievement of industry to hold unemployment at a peak of 2.71 million in the spring and currently to furnish jobs for a record peacetime number of employees, the fact that an estimated 100 million man-days of labor have been wasted through strikes and material shortages attests to a sorry record of progress. True, production of non-durables at increasing rates has glossed over the picture, for over-all output has mounted sharply. But in a key industry like the automotive one, recent estimates by C. E. Wilson, president of General Motors Corporation, that not until early 1948 now can full production be expected, certainly point to the general folly of our reconversion policies.

Too late it has become clear that without a corresponding prompt lift in prices, no attainable volume by industry could have provided a margin of funds to grant all workers an 18½ cent per hour raise in wages. Even now the impracticability of such a scheme has shifted the grab for the small percentage of profits remaining for capital from this source to the shoulders of the vast majority of workers who are unorganized or unable to obtain higher incomes. Through the advancing high cost of living these latter are forced to contribute to the earnings of a few strong groups in the labor field. Hence the interests of the "common man" have assuredly suffered, and will continue to suffer until well meaning planners hit upon a more rational procedure. The situation is full of inequities, with groups like "white collar" workers hardest hit.

Unfortunately the wave of major strikes has by no means fully run its course, as evidenced by the current tie-up of shipping by the maritime workers and threats of a new round of disturbances in other directions. Looking over the shoulder a year hence, constructive observers of our economy will discover many lessons which politicians and labor leaders should have learned long ago, and which would have created a more inspiring picture. "What might have been" will reveal heartening potentials, but late.

THE FEDERAL BUDGET SOARS—January estimates of the Administration that revenues in the 1947 fiscal year would total about $31.5 billion were revised in August to a level of $39.6 billion, but along with this encouraging news came word that expenditures would come to $41.5 billion against an earlier expectation of $36 billion. Hence instead of a possibly balanced budget from improved Federal income in the current fiscal year, sights have now had to be raised to 1948.

At the end of the first year of peace, with military expenses sharply curtailed, the prospect of deficit spending by Washington, in view of its astronomical income, is discouraging to the man on the street, faced with mounting living costs and still heavy income taxes. General approval of new policies to build up the national defense and to maintain a strong stand in foreign lands, of course may warrant an $18.5 billion outlay for the Armed Services, along with $6.2 billion for veterans benefits and pensions. $4.1 billion for international finance also is an understandable necessity. But compared with general government expenses of $685 million in 1939, proposed relative outlays of $1.8 billion in this current peacetime period naturally raise many an eyebrow. Main hope of curbing Federal extravagance rests in the incoming Congress, which will be armed by law to limit all outlays, apportioning them rigidly in line with revenue estimates. This newly enacted procedure by Congress appears certain at long last to once and for all check the bureaucratic expansion and deficit spending which has featured New Deal policies ever since 1932. A billion saved here and a billion there will go a long way towards stabilizing our fiscal system.

AS I SEE IT!

By ROBERT GUISE

THE SIGNIFICANCE OF ARCTIC DEFENSE

THE AMERICAN PUBLIC must prepare itself for sweeping changes in national defense strategy in the months and years ahead. The lessons of warfare learned in World War II changed many of the basic concepts of military science, not only by introducing weird new weapons like the atomic bomb and long-range rockets, but by placing a new set of values on such fundamentals as position, bases, manpower and logistics.

It is against such a background that our Arctic military strategy takes on special significance, for with the increasing stress on "global" warfare, the Arctic regions may well be the battlefield of the future. Far-seeing military analysts predict that any future attacks on this country will come from over the "top of the world," as this provides the easiest approach by a potential aggressor in the northern hemisphere. It is difficult to get the true perspective on most of the "flat" maps of the world, instead, a globe projection must be used to note the true distances between various areas; hence, the term "global" strategy.

A glance at this highly important area emphasizes the tactical value of our northernmost outpost, Alaska. There have been many fallacies about this possession, the most prevalent being that it is a barren wasteland of little practical value. Actually, many of its areas have a high degree of fertility, and its climate in some parts is quite suitable for settlement. But it is with respect to its military value that the most serious misconceptions have existed, and not until Japanese invasion threatened in the last war did our own Government do very much about Alaskan defenses.

Guardian of a Continent

However, this picture is now changing radically, in line with our new and rapidly maturing concepts of national defense requirements. Alaska is speedily being built up into an impregnable bastion, as impregnable, that is, as anything can be in a war where atom bombs and supersonic missiles are the order of the day. Although we spent over a billion dollars for fortifying Alaska in the war against Japan, the defenses we built are already inadequate. This is partly because they were hastily - contrived to meet the threatening emergency, and thus not intended to be of permanent value, and partly because of the swiftly changing requirements of modern war. Thus, we are embarked upon an entirely new program of fortification of this whole area, which, incidentally covers a vast expanse of land and sea.

Our armed services, too, are being rapidly trained in the arts of arctic warfare. Thousands of troops are being sent to this sector for winter maneuvers, and even the fleet will have to learn a great deal more about operating in these waters, a role in which submarines will be an important factor. It will mean the testing of food, clothing and equipment in the subzero temperatures of arctic winter. In short, a revolution in our tactical plans is under way to implement the new defense policy.

All these strenuous efforts toward refortification take an added meaning when it is realized that Alaska almost touches Russian Siberia, which is also being feverishly armed at this time.

The best guarantee of peace is an adequate defense, and it is to be hoped that any defense measures taken will be ample to cover any contingencies that may arise in the near future.

Market Trends Now In The Making

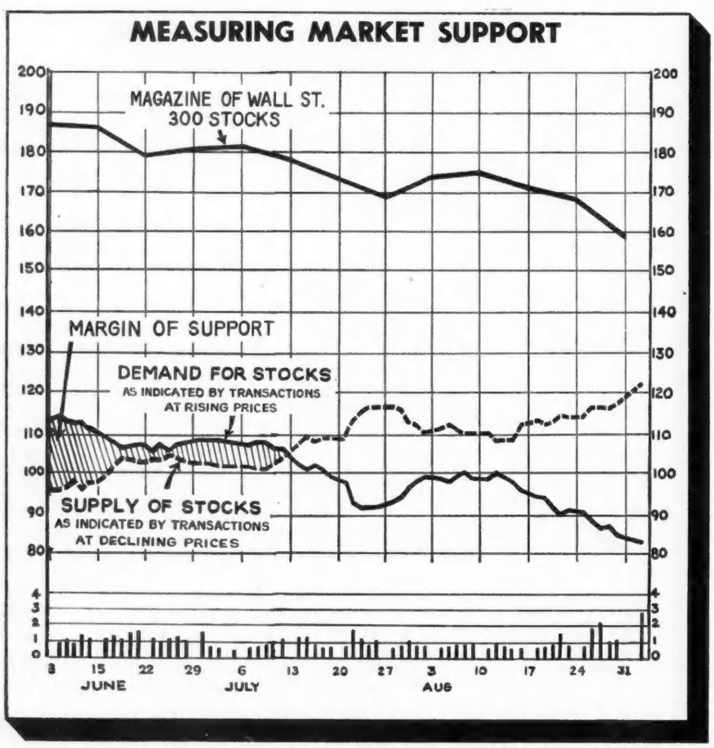
The recent trend action probably implies a bear market, justifying the cautious, selective policy we have been following for some time. There is substantial basis for believing it will prove to be a minor bear movement, not requiring drastic action if holdings are sound. If in doubt, how ever, this is a time for conservative decisions such as adding to buying power for reinvestment.

By A. T. MILLER

THE market would seem to have a fair chance of developing a better rally from the lows of the post-Labor-Day week than it has thus far shown, but whether it does or not is now beside the point. The primary question facing investors is whether a bear market has begun; and, if so, whether it is likely to be of major, or relatively minor, scope. If the former, drastic protective action is called for. If the latter, quite possibly half, or more, of the maximum decline has already been recorded, in which case there is no great cause for worry on the part of those who have heeded the cautious note voiced in these analyses for some time past.

In the first trading session after Labor Day, the Dow-Jones industrial average decisively broke both its July and February reaction-lows on large volume followed by another 8-point decline on Monday, September 9. The pattern for all other price measures—including THE MAGAZINE OF WALL STREET's indexes—has been similar. Under any mechanistic system of trend interpretation, including Dow Theory, the tradition-backed conclusion can only be that this break signifies that the primary trend has been downward since the bull-market highs were established in late spring.

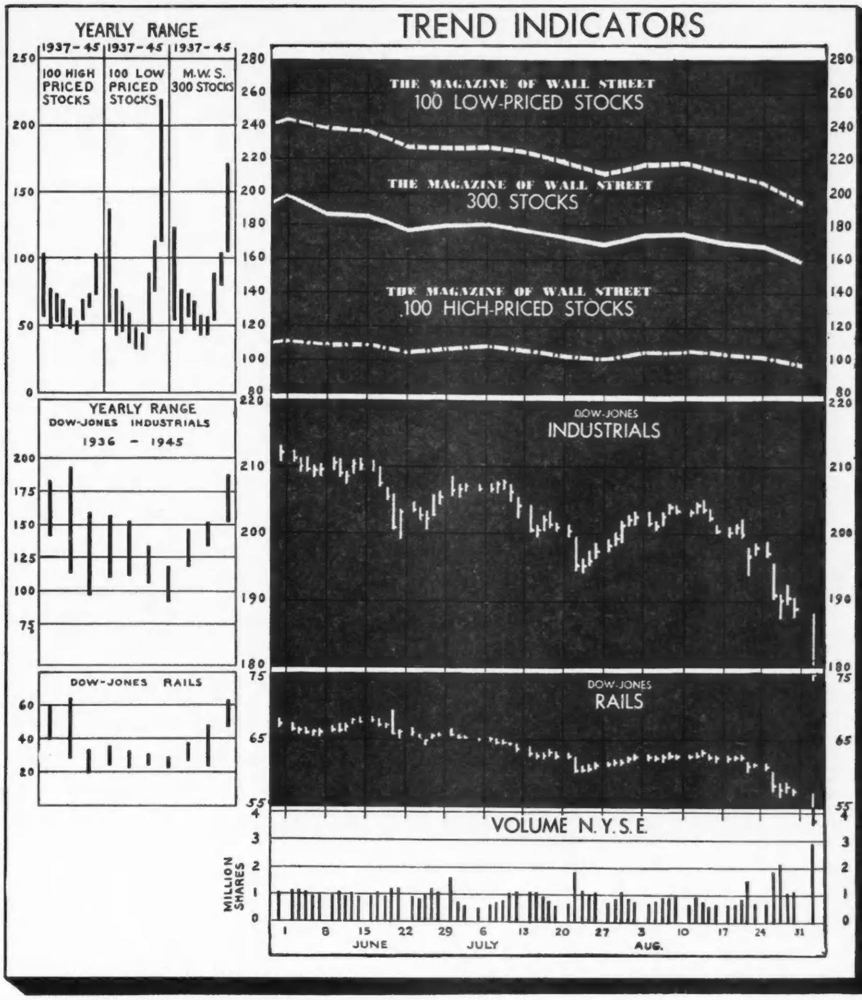
It could, of course, be questioned whether the traditional technical approach—followers of which make no effort to struggle with the pros and cons of economic-financial fundamentals—is valid in today's market. In some respects, the market is different from all past ones. It has for many months been a cash-based market, the first in all history. Due to this, and to various other well-intentioned restrictions which inhibit trader activities and operations by "insiders," it is the "thinnest" market ever known. Hence, a relatively moderate amount of selling can cause a wide break in prices. On the other hand, in this kind of market, necessitious liquidation can not cause a cumulative downward spiral. The latter now requires continuing voluntary selling. We could have that if enough people are scared of vague things they can not put their finger on; or if enough people are convinced that present prices are still too high in relation to the general outlook for business and for corporate profits.



The Advance Warnings

It would be easier to argue with the adverse technical evidence, however, if it had developed suddenly. But the fact is that the market has been at least "half-sick" for some time. It had difficulty getting anywhere after the highs of early last February were recorded—the subsequent late-spring high for the list as a whole amounting to little more than a double-top. These facts were repeatedly pointed out here, in support of our advocacy of a conservative, selective, middle-road policy. It was noted, time and again, that low-price stocks had ceased to provide speculative leadership, without which it was questionable whether a sustained general advance could be maintained. (The low-price stock

index perfectly forecast the withering of demand for new-capital stock issues, most of which are now well under the offering prices.) About mid-July, our "margin-of-support" chart indicated market trouble, although, as was acknowledged, it was impossible to forsee whether this implied a bear market or merely an important reaction. Finally, the foreign situation has been disturbing for some time.



Turning to the fundamentals, it is hard to see adequate reason for a bear market—but it would be foolish not to note that such has always been so when bear markets start. So far as peace-time bull markets are concerned, business is always good, and earnings and dividends good or rising, when the top is made. The reasons—there are always more than one — become definitely recognizable only in retrospect. A number of "attacks" are now being made on this decline. One politician has asked the SEC to see if a "bear raid" by plotters caused it, since, as he says, business is booming and trade was never better. Similar arguments by many others foot up to "everything is fundamentally sound" —which would be more cheering if, on much the same automatic reaction, so many observers had not preached the same thing when the market started down in 1929 and 1937.

However, there are two respects in which a major bear market now would be something new under the sun. The first is that in raw materials and finished goods the basic situation, both in this country and over much of the world, is still one of great scarcity. There is no saturated consumer market. With respect to consumer durable goods and housing, there is a vast need and but a small start has been made toward satisfying it. This is unquestionably a situation greatly different from that of 1929 or 1937.

The Question of Yields

Second, representative industrial stocks yielded less than high grade bonds at both the 1929 and 1937 highs. Such a relationship has always spelled eventual trouble for the stock market, although it has never been an exact indicator in timing wise stock liquidation, since it can prevail—and at times has—for a great many months. However, the opposite condition (a stock yield well above bond yields) has nearly always implied a genuinely sound investment basis. At the high last spring, industrials still yielded roughly 38% more than high-grade bonds. At this writing, it is nearly 60%: a fact which, taken by itself, should bring in selective investment support.

But when all is said and done, what people think makes the stock market; and no two bear or bull markets are ever quite alike. Hence all reasoning based on what happened in prior breaks—and why it should be different this time—is subject to a margin for error which should be frankly acknowledged. This decline may well prove to be something on the order, in percentage scope, of those of 1923, 1926, 1934 and that of November, 1938, to April 1939—moves which few now remember, although they were painful while they lasted. Our opinion, necessarily tentative, is that that kind of minor bear market seems probable. If so, it may already be late to scale down unless a good rally provides the opportunity. However, one thing should be emphasized. In a doubtful situation, any debate in one's mind should be resolved with the more conservative decision. Monday, September 9.

Where Do We Stand In The MARKET CYCLE?

By FREDERICK K. DODGE

Many explanations have been advanced for the recent market decline. Some explanations forecast decline in business, others a bear interlude in a bull market.

On September 4 the Dow-Jones Industrial Average closed at 176.22 and the Railroad Average at 52.44, down around 34 points, or 17%, in the first and around 16 points, or 23%, in the second from their respective 1946 highs of 212.05 and 68.13. According to the Dow Theory, penetration of the February lows of 186.02 in the industrials and of 60.53 in the rails have flashed a bear market signal, and the decisive break-through would seem to add force to this view. On the other hand, some analysts hold that the sweeping decline represents but an intermediate corrective phase in a bull market. In support of this opinion the 19% drop in the March-October, 1923, minor bear market and the 16.7% fall in the February-March, 1926, minor bear market may be cited as instances of only interruptions to the main upward trend of 1921-29. Whether one chooses to concur in either interpretation of a bear market or of an intermediate correction, the fact remains that the stock market stands in a highly critical and unsettled state. In this study, therefore, we shall attempt to evaluate the market's present position in light of technical and fundamental economic factors.

Volume Increase on Decline

It cannot, of course, be denied that there are solid grounds for apprehension as to the recent turn of events in the market. Of great significance is the fact that the successive waves of declines show evidence of accumulating momentum from the standpoint of rising volume of trading and climactic liquidation during the weakest session. During the break of August 27 and 28, for example, when the Dow-Jones industrial average was losing almost eight points the volume of trading rose to 1,790,000 and 2,100,000 shares, as compared with a daily average for the month of August through the 24th of only 820,000 shares. Furthermore, on September 3 and 4, when the industrials had slumped about 15 points in the two days, volume swelled to 2,900,000 and 3,620,000 shares respectively, the latter being the heaviest since May 21, 1940. Such volume is best appreciated when it is recalled that during the time when the market was recording its widest advances in January, 1946, a ten-day average of daily trading volume expanded to 2,400,000 shares; and the best average rate achieved in the second quarter of this year as 1,500,000 shares. In all past markets rising volume acompanied by falling quotations indicated real liquidation and it seems reasonable to infer that were brokerage accounts not on a 100 per cent margin basis—as has been true since January, 1946—considerable further liquidation would be forced at this time as a matter of technical necessity. From a mechanical standpoint, therefore, the market cannot be regarded as anything but vulnerable although comparison with past periods must make allowances for the fact that investors today own their stocks outright and are not forced to part with them if their business judgment dictates otherwise. Hence, the real test of the market's outlook hinges on the prospects for business and corporation earnings. In other words, the key question probably is to what extent the advances of the past four and one-half years have already anticipated postwar earnings possibilities.

General assumptions as to the *longer term prospects* of business have been quite naturally, on the favor-

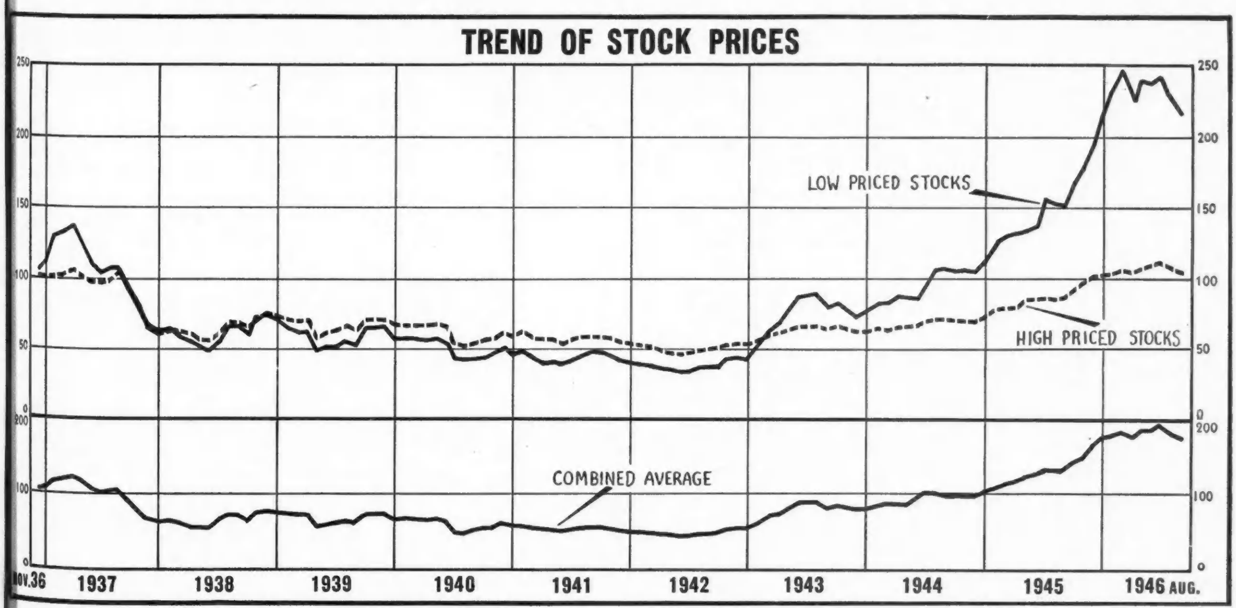
ables ide. But at the same time there has also been considerable disappointment concerning the *immediate* factors visible on the economic horizon. Foremost among these during the past few weeks has been the international situation and the crisis provoked by Yugoslavia with its obviously threatening aspects for the peace of the world. Such a situation serves only to focus attention on the unmistakable fact that there are two opposing camps developing in the postwar period which in many respects embrace irreconcilable aims. There is on one hand Russia and her European satellites—Yugoslavia, Poland, Czechoslovakia, Bulgaria, Rumania and Finland; while on the other hand there are the United States and Britain and the other nations that subscribe to the systems which they represent. The difficulties which these two groups have in reaching a common ground of understanding and cooperation hangs like the sword of Damocles over the domestic scene and provides a recurrently disturbing element that tends to interfere with all business and financial calculations.

The spectre of further labor troubles has also appeared again in the recent announcement that the United Auto Workers, CIO, had petitioned the Chrysler Corporation to reopen wage discussions. Coming at a time when labor tension was believed to be easing and almost concurrently with reports from The Automobile Manufacturers' Association that passenger car manufacturers' factory sales for the first seven months of this year were only 30.7 per cent of the sales for the corresponding 1941 period, this development was little less than a shock to confidence. Then, too, there have been growing evidences of indigestion in the new capital markets.

According to the SEC, registration under the Securities Act reached a new high in the second quarter of 1946 with a total of effective registrations of over $2.5 billion—more than 50 per cent higher than the previous high level established in the third quarter of 1945. Meanwhile, both underwriters and distributors complain of the mass of undigested securities that continues to weigh down on the market.

Growing indications that railroads are experiencing "heavy sledding" have not helped the general market situation, either, and may explain why the railroad averages have declined to new lows since September, 1945. The net operating income of the first forty railroads reporting for July indicates a decrease of 55.6 per cent from a year earlier. In the light of these results the postponement of the freight-rate hearings to a date later in the year may mean that many railroads will wind up the year 1946 "in the red". The impact of these various unsettling influences together with an unquestionably large amount of professional selling doubtless was responsible for the reactionary behavior of the market in recent weeks. To phrase it in the words of Mr. Walter Lippman, "The feeling that things are not working out right at home or abroad is so general that it is giving rise to a belief that nothing can be done about anything. But this is only a mood which naturally and unavoidably follows a great war. The mood will pass away."

We agree. As far as the outlook for economic expansion is concerned we have all the ingredients necessary, with the possible exception of industrial harmony. When materials and manpower are available we can produce from five to six million automobiles a year; we have a construction deficiency in this country that could assure capacity building operations on a boom scale for years to come; our farmers are enjoying record prosperity and have greatly augmented their purchasing power through debt reductions and wartime savings; and both consumer and capital goods shortages exist in almost every field that one might mention. But many stocks have been carried to high levels that are already placing a high capital value on potential expectancies for the next few years. (*Please turn to page* 727)



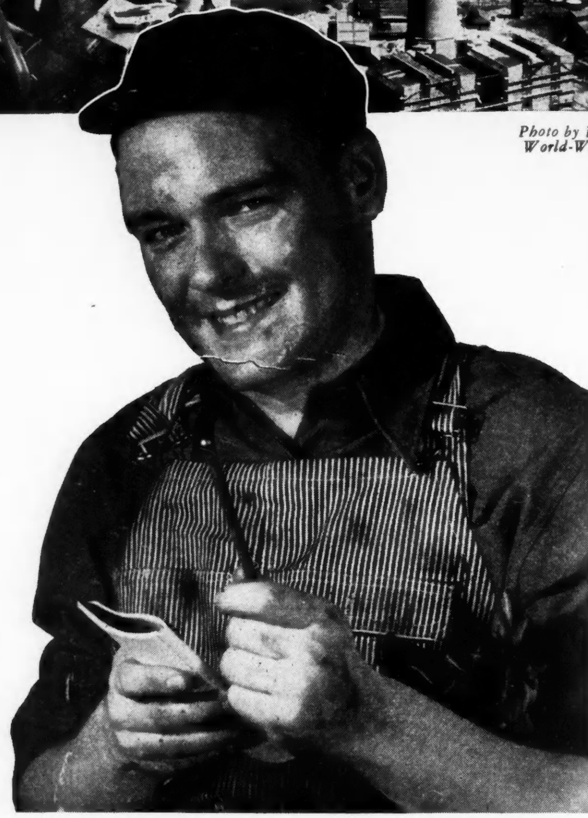


Photo by INP World-Wide

Although industrial production has been rising at a rapid rate in the last few months, the situation is again clouded by renewed labor demands.

RECORD PRODUCTION

And Its Investment Implications

By WARD GATES

NOW THAT THE WAR ECONOMY has been rather fully liquidated and the severe price and labor maladjustments of the immediate postwar period of transitional reconversion have subsided to a large degree, industry may begin looking forward to future profits possibilities under conditions of full peacetime production. This is not to say, however, that the changeover has been entirely completed. On the contrary, much remains to be accomplished in solving problems of pricing, retooling, the obtaining of an adequate flow of raw materials and parts, and the establishing of more permanently harmonious labor relations. But progress is being made as is indicated by U. S. Department of Commerce reports that total production of consumer and capital goods by the middle of 1946 was steadily increasing, although not as yet to a point sufficient to offset the decline in war production. Nevertheless, while the flow of most goods from reconverted war plants is still considerably below capacity, the *major* production hurdles are now out of the way.

The result is that the curve of industrial production is rising more sharply than had been expected a few months ago. This is indicated by a jump in the Federal Reserve Board's index to 170 in June, from 159 the month before. This index, by the way, is based on 100 as the average for the year's 1935-1939. Of course, during the peak war year of 1944 the index averaged 353, although no such production goals are likely under peacetime conditions. It must be remembered that companies engaged in war production were working on standardized products for one customer—the United States Government—and considerations of cost and economies of operation were for the most part subordinated to the more important objective of increased output. Furthermore, the products of war were being destroyed at a rapid rate and the ordinary problems of overproduction did not exist. With the return of competitive operations for a widely diversified group of customers constituting a steady consuming market, it appears probable that a ceiling will be placed on "full production" considerably under 190 for the Federal Reserve Index. For example, in the last prewar year, 1940, the index averaged 125, which was the highest level up to that point. Although we did not enter the war until December, 1941, that year could not be considered a representative peacetime period, because of the incidence of the Defense Program. The level then was 162.

In general, industrial production will be retarded

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in its upward climb by an inadequate labor supply and lack of producing facilities and equipment. In the first week of June, according to estimates of the Census Bureau of the Department of Commerce, total civilian employment reached 56.7 million persons which is important in the light of the fact that total available manpower has been placed around 60 million and many industries are by no means enjoying capacity operations as yet. Then too, while there unquestionably is a large reservoir of excess war plant capacity, much of this is uneconomically located and unsuited to private industrial purposes. Meanwhile, of course, demand for the products of industry will remain high probably for years to come. Although more than a year has passed since VJ Day there are still heavy accumulated shortages in many consumer lines, of which the automobile industry offers a striking example. At the same time our national income continues to rise with payments to individuals in May close to $160 billions, on an annual basis, compared with a $157 billion yearly rate the month before. This condition reflected increased employment, high farm prices and enlarged cash incomes of farmers, as well as generally higher wages and the payment of retroactive wage increases. Even assuming a steep reduction in the purchasing power of the dollar, a vast market for the products of industry is indicated in these figures and also in those reflecting a considerable backlog of wartime savings.

Not so long ago the Civilian Production Administration issued an analysis in which it concluded that "full production" will be attained in six months, provided there are no more important strike disturbances. They also predicted that inside of three months output will reach sufficient volume to act as a brake upon rising prices. There can, of course, be little argument with this forecast if the assumption with reference to labor holds true. In fact we will go even further and say that production right now would be better balanced and industrial operations smoother and broader in scope had recurrent labor strife not contributed so heavily to upset the always delicate integration of our various economic units. The fact remains, however, that considerable divergence exists in the outlook for different industries as a brief reference to a few of the more important groups will disclose.

During the war years everyone looked to the automobile industry as a potentially powerful force that would start the nation back on the road to increased civilian goods production and generally exert a tonic effect upon general business activity. The reasons why these companies have been unable to assume this leading role are well known; but in general they consisted of widespread strikes in the assembly field as well as direct tieups in the automobile plants themselves. Pricing discrepancies have also been instrumental in interfering with the steady flow of essential parts to the assembly lines of automobile manufacturers with the result that according to M. E. Hoyle, vice-president of General Motors Corporation, passenger car production in 1946 is unlikely to exceed 2 million units, although prevailing difficulties may straighten out in 1947. Not until 1948, however, may conditions of full uninterrupted production be witnessed. Meanwhile, the pent-up demand as measured by a drop in registrations and the incalcuable depreciation and obsolescence existent everywhere has been estimated by the Department of Commerce as sufficient to justify production of 6 million cars annually for several years to come. Because of keen competition under normal conditions heavy volume is the basis for profitable operations and hence most of the larger companies should fare well as time goes on *provided profit margins are not squeezed too tightly between increased wage and material costs and selling prices.* This is the big uncertainty in the industry but fortunately most companies are in good financial shape as far as working capital is concerned. The smaller units in the industry will, of course, do well as long as a "sellers market" obtains but eventual competition overclouds their longer term prospects.

Because so many industries are handicapped in their manufacturing activities by insufficient supplies of **finished steel products,** any inquiry into broad **general production trends must** seek to answer the question as to when this basic bottleneck will be opened. Because of strikes at the steel mills in the first quarter of this year, and serious stoppages of bituminous coal production in the latter part of May, output of steel ingots is far behind schedule. It has been estimated that the production deficiency amounted to as much as 22 million tons which is little short of drastic in view of the fact that demand for

all kinds of steel products is at record breaking peacetime proportions. Although production of ingots recently rose to over 90 per cent of capacity from a low point of 43 per cent in the first week of June the mills have been handicapped by a serious scarcity of steel scrap which ordinarily constitutes 40 per cent of the finished mixture. It is of some encouragement to point out in this connection that in the opinion of Iron Age, reinstatement of the OPA will tend to release much needed amounts of steel scrap which are said to have been held for higher prices, and thus it seems probable that an anticipated new drop in the rate of operations may be avoided.

Coal Important Factor

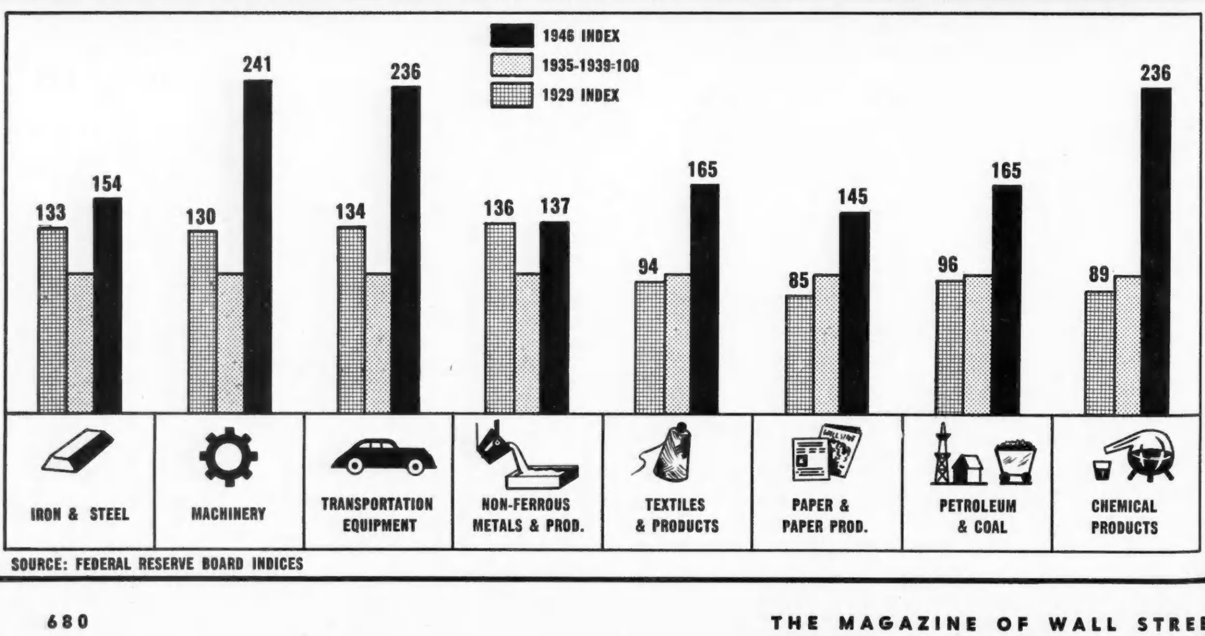
We particularly referred to the automobile and the steel industries because the former is representative of one of the largest markets for the products of other manufacturers, and the latter is at the other end of the process of fabrication. In a sense one mirrors the progress of a multitude of parts and materials supplied by a wide range of contributing companies in many other lines; while the other is nearer the source of the pipeline of goods-in-production, to use an expression of the Civilian Production Administration. There are, of course, other industries that throw light upon this rather broad subject of industrial production due to their influence over the general scene. Coal mining is a case in point as is also the availability of adequate freight transportation equipment. We need only recall the general paralysis that began to set in during the coal strike earlier this year to appreciate how much depends upon a high level of coal mining activity to support capacity operations elsewhere throughout our economy. Freight transportation, however, is equally important and it must not be overlooked that the need of the railroads for re-equipment has been greatly accentuated during the war. Encouragingly, reconversion has made great strides in this industry due mainly to the war importance of its regular output and the companies in the industry are gradually making substantial inroads into the heavy bookings of locomotive and car orders.

In the surveys of particular industries appearing in the Magazine of Wall Street, intensive treatment has been given to the major groups and to the principal companies in those groups. The factors which are now governing production trends and affecting profit margins and profits potentialities have been weighed quite comprehensively as reference to recent issues of the Magazine, and to forthcoming issues, will disclose. But, in general, it may be said that there is hardly an industry that is not fortified by a large pent-up demand for its products which will be asserted just as soon as the basic problems of adequate raw materials, prices and costs are solved.

Textile Shortage

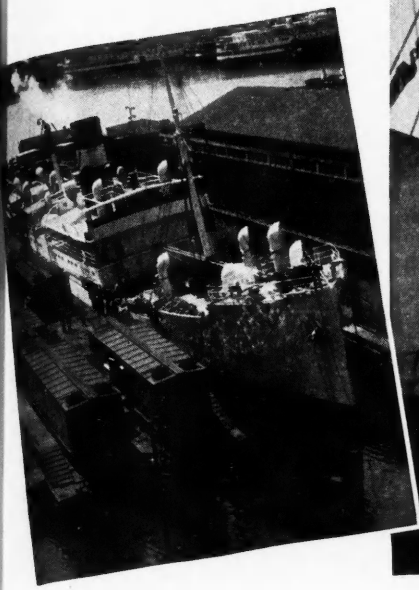
Perhaps one of the most flagrant inadequacies that meets the eye is the failure of the textile industry to keep up with consumer demand. This, moreover, is true despite the fact that the field has been overbuilt for decades; or at least it was until the war-stimulated demands utilized all of the "excess capacity" that heretofore existed. Strangely enough, it is reported that raw materials for this industry are still abundant in the chemical sources for rayon and in the stocks of raw cotton accumulated by reason of Government policy. Wool, mostly imported, also is plentiful and the world's wool supply has rarely been inadequate. Yet, with cotton said to be the basis for 65 to 70 per cent of all clothing items and with an un- (*Please turn to page* 725)

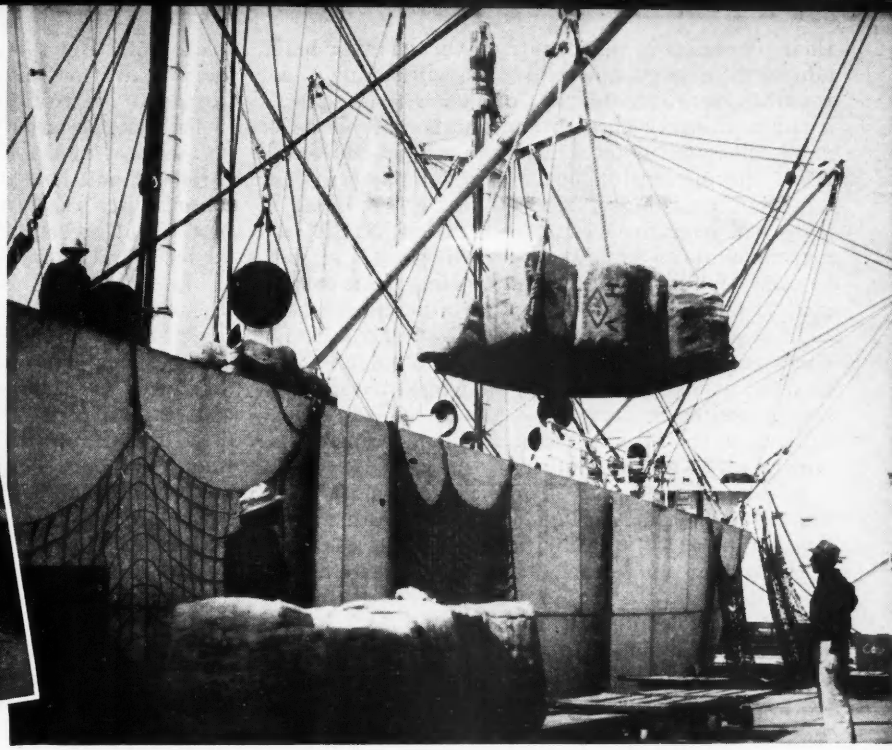
HOW LEADING INDUSTRIES SHARE IN RISING PRODUCTION TREND



SOURCE: FEDERAL RESERVE BOARD INDICES

Large volume of exports must result in corresponding increase in volume of imports.
Photo by Galloway-Wide World





With IMPORTS Near 15 Year High

—What It Means to U. S. Business

By H. M. TREMAINE

With the advent of VJ Day, resumption of world trade on new and limited lines began. The ebb and flow of global traffic in foods, munitions and civilian essentials for a brief period slumped somewhat to permit adjustments to peacetime requirements. Between reconversion demands for raw materials and calls from wartorn countries for relief food and clothing, however, Government shipments quickly started a sharp upward trend. First half of 1946 was featured by a marked resurgence of private foreign trade to bolster totals, with percentage gains generally registered with each succeeding month. And chances that international trade activity in the second half of the current year will top that of the first six months appear excellent.

All of which points to a probability that the United States will be buying goods from her foreign friends on a progressively broadening scale for several years to come, for history records that along with increasing exports a corresponding uptrend in imports follows as a natural corollary. Indeed, as an economic necessity we will have to pour out American dollars as never before in order for our foreign customers to obtain funds for the purchase of our own products, for to continue indefinitely to loan them money for this purpose would, in the long run, lead to another string of defaults such as followed after War 1. Just what we are now buying or are likely to buy, therefore, assumes unusual significance, for the time can never come when any nation reaches a state of complete industrial self-sufficiency. Such a study becomes decidedly interesting because of potential impacts upon different segments of our economy and the changing picture bound to emerge as other nations succeed in achieving fuller production. As time goes on, the character of our imports must shift from a major concentration upon raw materials to one more closely concerned with finished or semi-finished goods, thus increasing the problem of international competition.

In the current struggle to achieve huge industrial sales, public attention has largely centered upon reported sizable orders and shipments for export, with corresponding less realization of the expanding trend of incoming products. What with enormous allocations of food supplies to UNRRA for delivery to hard pressed Continental countries and the reported mounting backlog of orders for domestic consumption of our own goods, the subject of imports has been rather pushed into the background.

According to the Department of Commerce, however, total imports of the United States during 1946 are likely to run close to $5 billion, or approximately half of some $10 billion expected exports. The balance of trade, therefore, in our favor will be substantial, but payments for the imports will go a long way towards helping foreign nations settle for

their purchases in this country. On the other hand, add to the exports amounts which will be due us for royalties, services, interest, dividends, and sales of surplus property abroad, and another $4 billion or more will raise the total due us to around $14½ billion. Supplementing our $5 billion payments for imports, accordingly, more than $4½ billions in loans will have to be arranged, while UNRRA aid may amount to $2 billion, contributions and gifts to over $1 billion, the balance coming from sale of gold to this country or reduction of dollar balances. Significantly enough, some of these items are of a non-recurrent nature, but so are the amounts and kinds of goods involved over the longer term, for as time passes emergency shipments in both directions will change. World reconversion currently has created an abnormal picture.

If Secretary Wallace's predictions come true, it will mean that in terms of dollars our purchases of foreign products in 1946 will exceed those of any previous year since the early 1920's, and by a wide margin at that. In 1925, for example, total value of United States imports came to about $4.4 billion, dropping to as low as approximately $1.5 billion in the depression year of 1932 and from that time to the present year never exceeding $4 billion, in fact averaging only about $2.8 billion annually for the past decade, or not much more than half the expected $5 billion aggregate for 1946.

Compared with prewar monthly averages the picture becomes even more illuminating. During the 1936-38 period, imports for consumption in the United States, that is to say products not including those deposited in bonded warehouses for ultimate reshipment elsewhere, averaged about $205 million monthly. Against this figure, the reported monthly low for 1946 was $306 million in February along with a high of $406 million in April, and it appears inevitable that as the fall months unfold, the trend wll be still further upward.

True, as has been previously suggested, purchases of food and other commodities abroad to sustain our armies and to support UNRRA have somewhat distorted the normal situation, but on the other hand private trade has established import gains running as high as fifty per cent above 1945 levels. These combined contributions to world trade carry unusual significance taken in conjunction with British and Canadian similar activity, for these two countries along with ours provide the mainstay of international trade now that Germany and Japan have been forced to take a back seat. But this is not to infer that other nations as well are not sharing in the current uptrend in international trade. Study of the appended table will disclose how broadly the new stir of traffic between most of the leading countries has become expressive, and how markedly most of them are now all-out in a race for greater industrial expansion, and to take advantage of new found potentials both at home and abroad.

Just what need and room for various products in the United States economy has occasioned the current boom in purchases from foreign nations is exceedingly interesting under the changing conditions likely to exist for the next four or five years. Shortage of raw materials at home to support the pressure of record peacetime production of manufactured goods has of course redoubled efforts to overcome the difficulty through imports from foreign sources of supply. Additionally, and of equal significance is the pent-up demand for goods and materials of foreign origin which in peacetime years come exclusively from markets abroad. At long last, after more than four years of interruption, nations all over the globe are striving to restore markets broken by war, with obvious advantages to those producing countries less affected by the ravages of hostilities.

What We Are Buying Abroad

In scanning the record of principal imports bought by the United States during the first five months of 1946, totalling $1.86 billion in value, crude materials account for $685 million. Borne in mind, however, must it be that prices all over the world have risen on the average nearly fifty per cent compared with prewar; hence quantitatively considerable allowance must be made in making comparisons with earlier records.

Dollarwise, at least, the most important imports of crude materials for the period mentioned included raw wool valued at about $135 million, undressed furs worth $99 million, crude rubber—$86 million, raw silk—$39 million, crude petroleum—$99 million, tobacco—$49 million, diamonds for industrial use or uncut—$25 million, non-ferrous ores or concentrates—$25 million and ferro-alloying ores—$19 million. Various vegetable fibres and seeds added up to substantial sums, also, leaving $92 million for all other crude materials not mentioned in detail.

As for food products imported during the first five months of the current year, coffee valued at $181 million topped the list, with cocoa beans accounting for $28 million, vegetables—nearly $22 million, bananas—$15 million, tea—$15 million and all other crude foodstuffs contributing $50 million for a grand total of $331 million. Additionally, the nation imported a total of approximately $192 million of manufactured foodstuffs, including sugar, cheese, fish, meat products and edible vegetable oils, during the first five months. Whiskies and wines valued at about $32 million ranked only second in value to sugar in this roster.

Probably of even more significance in the changing international trade picture have been our imports of semi manufactures and finished goods, val-

ued at totals of $333 million and $319 million respectively from January through May, 1946. Items of more than average importance included sawed boards and lumber—$24 million, copper—$29 million, nickel—$17 million, tin—$2.7 million, industrial chemicals—$12.9 million, fertilizers—$10.7 million, wood pulp—$50 million, cut diamonds—$56 million, leather—$9.9 million and inedible oils—$6.8 million. As for finished goods, cotton and wool cloth had a total value of about $3 million, newsprint—$12.8 million, burlap—$5.1 million, machinery and vehicles $19.7 million and shingles—$590,000. Imports of nearly $40 million of various other manufactures attest to our growing liberality in absorbing finished goods from our neighbors abroad. All told, imports of every description into the United States during the first five months of the year were approximately $100 million more in value than during the relative period in 1945 when we were draining the world markets of all available essentials helpful to the war effort.

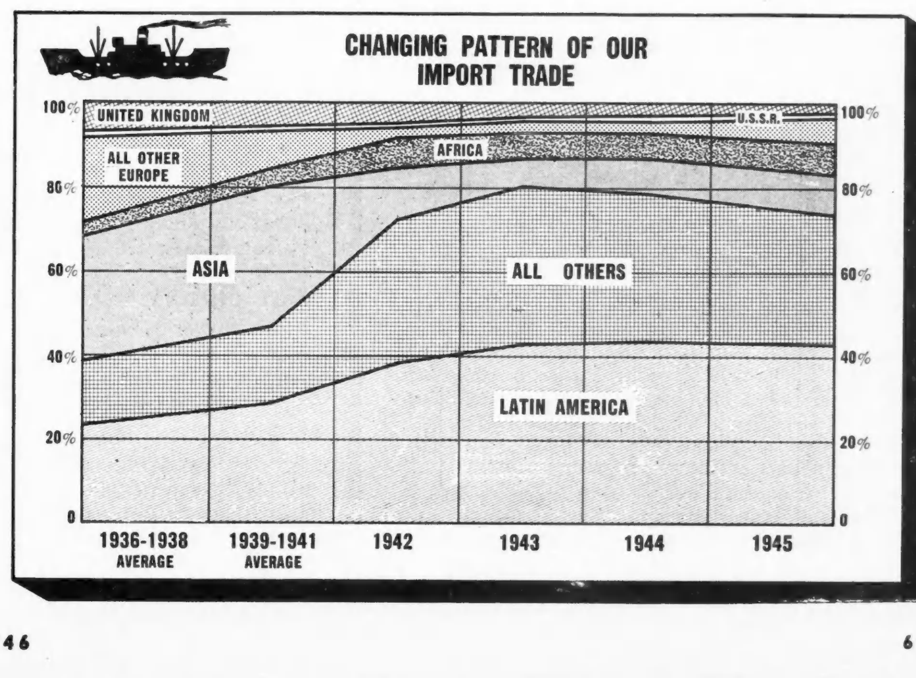
With a sellers market emphatically in the saddle all over the world, those countries fortunate to possess exportable commodities are experiencing a heyday in exploiting promising foreign markets, and among the latter the United States clearly is on the way for an extended period in providing much sought-after dollar funds to warrant part of the payments due for purchases from us. Just what areas are in a position to furnish us with the products which we seek currently, or those countries which in the longer term will be able to sustain their gains of changing character as the sellers market subsides when worldwide production gets into its real stride, is an interesting thing for consideration.

Scarcity of raw materials, presently such a serious problem in our economy, eventually will be alleviated, although certain items from foreign shores will continue to be in substantial demand. As long as price controls continue on the scene, the Government itself will keep on as an important buyer to support import volume. Without waiting for further developments, Washington has already started on a program to build up a $2.1 billion stockpile of critical materials, requiring several years for full implementation. Some sixty-five critical materials will be accumulated in addition to present needs of industry, including large quantities of copper, rubber, tin, jewels and zinc, to mention only a few. As domestic price ceilings for many of these products are below the established world level, price trade as yet is unable to enter the competition on a broad scale, so for a time yet the Government will step into the breech, if necessary reselling to industry at a loss.

Hence Chile and Peru with their vast stores of copper, Mexico with its lead, silver and mercury, Cuba with manganese, Bolivia with its tin and East Indian countries producing fibers, tea and oil products are assured of large sales to us for some time ahead. As before the war, Latin-American countries generally are continuing to find in the United States their most important customer. Producers of lead and copper alone in that area are well aware that our domestic deficiencies of these essentials have mounted to some 700,000 tons annually in each instance, and that they are in a position to supply this demand. There is hardly a country to the South of us that has not many specialties which the United States either cannot produce or needs to maintain our domestic sales at promised high levels, including foods such as coffee and bananas, forest products and a long list of handicrafts such as pottery, panama hats and textiles.

For the Far East, the movement of products to American markets has begun again in earnest, although long delays will be entailed for a considerable time to come. Tin, oil, spices and goat skins will find increasing demand in the United States, along with copra and manila fibers. Already from even wartorn Japan has come the first shipments of silk for the past five years and from this same source is now on the way about a million dollars worth of tea. Whether or not Japan can recapture her prewar advantage in supplying the United States with the bulk of cheap chinaware we use remains to be seen, for our domestic producers have been alert to take over the market in the emergency.

In scanning the list of countries across the Attic with growing poten- (*Please turn to page 725*)



Happening In Washington

By E. K. T.

INDUSTRIAL picture as reported by CAP's John D. Small presents a pleasing view. Consumer goods are coming along at an unprecedented peacetime rate; virtually full employment is being achieved—the work force now totals more than 58 millions. Supply and demand, says Small, are being brought into closer balance, with the peaks and valleys which marked inventories in many categories levelling off. But there's a cloud over the picture: there's no assurance that employer-employee relationships will stand up under the shifting cost-of-living which is setting in, and there is no ready answer to the problem of tightness in transport equipment.

WASHINGTON SEES:

With few exceptions, state primary returns now are in and national headquarters of the major political parties and the various labor unions and other interested groups are unable to detect any substantial national trends.

No single issue ran uniformly through the party balloting. There were questions of party loyalty, as in Missouri; of isolationism, as in Minnesota and Montana; of state's rights, as in Mississippi. And, scattered over the country were tests of PAC strength, challenges to this who had, or had not, as the case might be supported the Office of the Price Administration and the hold-the-line program.

Names of many veterans of World War 2 will appear on the November ballot, which is natural; but a runback over the primary issues will reveal very few instances in which the result flowed specifically from the "veteran question." In many cases, one veteran defeated another; in some, the nominated veteran had been in office when Pearl Harbor broke, had resigned to go into uniform, and is attempting a comeback.

Labor unionism was a real issue in cases where the local organizations saw fit to inject it. Undoubtedly, it will loom large in November.

LAYOFF of War Department employees finally moved from the talk stage to the field of action, effective in September's first week. By the end of the month there will be reduction to less than one-half of the 1.25 million persons who drew War Department checks one year ago. New personnel reductions are coming along next January and in the following April. By June 30, about 300,000 will be on the payroll. Comparable action by other agencies would effect the staff cuts demanded by the Byrd Committee. But they aren't in sight.

NEW ELEMENT introduced by the Bureau of Budget into the business of recapturing overpayments made by the government during wartime has the old line fiscal agencies here, as well as Capitol Hill, perplexed. The Bureau was told to get back from the railroads millions of dollars representing erroneous payments to the rails. Computation of exact amounts was made. But when the Budget Director Webb was asked why he was not moving forward he explained he wished first to explore the possible effect of extension reparation awards to the government "on the financial condition of the railroads." Validity of the claims, he agreed, is not in question.

MINE UNIONS, which were vehement in their demands for government operation of the coal pits at a time when it seemed (and, evidently rightly so) that a better deal could be made with the Washington agencies than with the owners, are now joining the operating companies in urging speedy return to private control. They're becoming worried that any approach to successful operation by government might lead to public demands for nationalization of coal mining in the event another pay crisis arises. And the unions evidently have concluded nationalization is a good thing—for England.

AS WE GO TO PRESS

The mass production technics of American industry which gave this country air superiority, are to be put to use in manufacture of housing. Dwellings soon will be coming off the assembly lines. Industry leaders have laid a program before National Housing Administration and received the not unexpected response, "we are enthusiastic about it!"

Deterring factor is the circumstance that the government agents have not been able to work out a guaranteed market contract, as provided for under the Patman Act. The first one has yet to be signed and industry isn't willing to go ahead on pure speculation. However, the machinery is in place, the problem will be solved.

Another reconversion possibility is one of turning road-building outfits into housing operators. Suggested is that they can use their graders, pavers, cranes and other equipment to put up concrete houses. Best bet there is the vacuum concrete process by which liquid is sucked out of precast slabs. It has been used successfully — in a limited way — in some trial housing.

Wartime restrictions on development of about 18 million acres in Alaska have been lifted. This, says Interior Secretary J. A. Krug, is complete refutation of the charge that federal government seeks to prevent the development of Alaska by private enterprise.

The system has great possibilities, Krug maintains with some respectable professional reports to back him up. The large area has been withdrawn for possible development of government petroleum supplies. Private developers may now go into it under federal mining and leasing laws and other statutes governing public lands.

Even the OPA is human; it can err: Some excitement arose when the pricing agency issued a press release that there would be no more price control over house trailers. Paul Porter and other bigwigs at OPA thought it strange, investigated, sent out a new release: correction — "horse trailers." Many still don't know what it meant.

Former owners of commercial property taken over by the government during the war now have prior right to buy it back when it becomes surplus. Relief came in legislation to set aside an interpretation of the Surplus Property Act which put federal, state and local government ahead of prior owners in purchasing surplus commercial real estate.

Reports still are coming in, but Washington offices frankly do not expect the August goal of 285,000 passenger cars and 120,000 trucks will be met. For one thing, it would mean a schedule boost of 28.4 — and that doesn't seem in sight.

Data gathered in industry roundups indicate that despite production of only 918,000 cars, trucks and buses in the first half of 1946 a figure 65 per cent short of original expectations, employment volume was high with a total of 456,292 employees.

Car manufacturers point out that despite their every effort to speed production, a 10 per cent net loss on every dollar of sales has been sustained by the industry this year. This loss, aggregating more than 50 million dollars, represents the greatest shrinkage on record, not excepting the depression year of 1932.

Petroleum production, still speeding along under the impetus of necessity created by war conditions, reached an all-time high in July, this year. In that month total output came to about 153 million barrels — a figure exceeding that of any wartime month.

Partially explaining the rise was a five per cent increase in the civilian use of gasoline. This is in line with the 1945 figure of 19 million gallons of gasoline consumed on the nation's highways, an increase of 16 per cent over 1944. And the quality is better, therefore the mileage greater, says the Bureau of Mines.

Also sharing in the business upsweep is the rubber industry — another which attained a new all time high in the second quarter of 1946. In excess of 16.5 million passenger and motorcycle tires and about 4 million bus-truck tires, built up the record. And it appears the last half of the year will see it matched, possibly exceeded.

A few voters in a few states electing senators this year may decide not only whether the congress will be democratic or republican, but also which senators are to be the powers in the next, the 80th session of congress. The legislative reorganization act, reshuffling legislative committee assignments, will put a further premium on seniority.

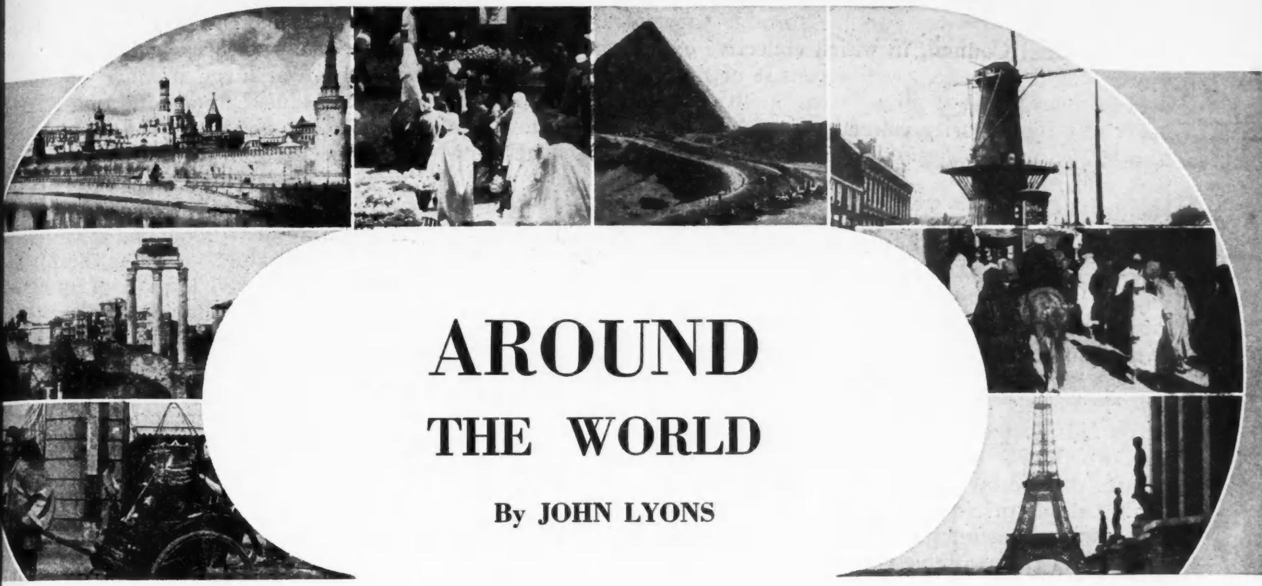
The 33 committees in the senate have been cut to 15 — 18 senators will lose coveted chairmanships. And question is raised as to which of the elder statesmen will win in the scramble for top spots. Chairmanships are no empty honors; their holders have the right to say what legislation will be considered at hearings; what will be pigeonholed.

Example of how the reorganization bill could affect national policy: If Senator David I. Walsh of Massachusetts, is elected in November, he automatically will become chairman of the new Armed Services Committee (assuming the republicans don't control the senate). Walsh opposes merger of the army and navy. If Walsh is defeated, Senator Elbert Thomas of Utah, will be chairman. Thomas favors the merger.

No one knows exactly what the final lineup will be, but the most worried and confused people in Washington are the lobbyists. They have to spend time and money selling their pet hopes and hates to important committee members. Now, they are stymied. They don't know whom to talk to; don't know who to place on the list of cocktail party guests.

And, they cannot even attempt to guess which of the 76 members of five committees will be the 13 chosen for the new public lands committee, or even which of the 13 present 20 members of the banking and currency committee will remain. They can't be sure that the new version of the W-E-T housing bill will go to banking and currency. They have no idea which committee will handle any new atomic energy bill, or whether a science foundation bill will go to the armed services committee or to labor and public welfare.

Congress is in an "investigating mood." Old timers in the Capital say that's symptomatic of an election year. Senate war investigating committee has been quiet while its chairman, Senator James M. Mead, explores the Empire State gubernatorial situation. Full committee hearings have been adjourned but Senator Harley M. Kilgore of West Virginia — a friend of Mead — will revive the subject with subcommittee probings.



AROUND THE WORLD

By JOHN LYONS

. . . Uruguayan Dollar at Par

. . . End of Inflation in Hungary

. . . Further Chinese Currency Devaluation

SEVERAL DEVELOPMENTS have contributed to the rise of Uruguayan dollar bonds to par during the past few weeks. One factor has unquestionably been the switch on the part of investors—now that Argentine dollar bonds are about to be redeemed—to Uruguayan securities. Another factor has been the gradual strengthening of the international payment position of the little Republic on the eastern shore of the River Plate. This development has been due principally to the re-opening of trade with Europe, the leading pre-war market for the most important Uruguayan products—meat, wool, hides, corn, flaxseed and linseed oil. The prices of all these commodities are up considerably and it is a fair guess that the Uruguayans have been getting in recent months prices probably twice as high as those received a year ago.

With a large volume of goods moving overseas and high prices, Uruguay's exports are breaking all previous records. On the basis of the first five months' figures, the exports may easily reach the $150 million level this year, compared with $122 million in 1945, the previous record year. Pre-war exports (1936-39) averaged around $70 million. Moreover, despite the accelerated rate of imports, Uruguay again will have a sizeable export balance, although smaller than during the war years. It was principally due to the succession of wartime export balances that Urguay built up its gold and foreign exchange reserve to about $265 million (as of the end of May 1946) from the pre-war (December 1938) figure of $72 million. On the per capita basis, Uruguay's gold and foreign exchange holdings are one of the highest in the world.

This year's imports—about 40 per cent of which originate in the United States—will also be at a record breaking level of around $110 million; this compares with $96 million worth of goods imported in 1945 and the pre-war average of about $60 million (1936-39). Despite these extra-ordinarily high imports, Uruguayan prices and the cost of living have been rising—although at about 50 per cent above the prewar level, they are not too high as Latin-American prices go, partly because the greatly expanded consumers' demand and party because of worldwide advances of food prices. The rising living costs have led to a series of recent strikes.

Fuel Exports to Be Cut

Another development which has strengthened Uruguay's international payment position was the opening last year of the Rio Negro hydro-electric plant which has been under construction since before the war. Eventually enough power will be generated to dispense with imports of coal and other fuels for industrial uses. Since about one-fourth of Uruguayan imports have consisted of fuel imports, considerable foreign exchange will eventually be released for other imports and for debt service. In fact, the transfer problem should not cause great difficulty in the future. Recently, electric power rates (light and power are Government monopoly in Uruguay) have been reduced—a development which should encourage further industrialization.

On November 24, Uruguay will hold a plebiscite as to whether the country should be ruled by a President or by a National Council, "El Colegiado." The idea is to safeguard the Republic from potential dictators—from the presidents who perpetuate them-

selves in power or arrange for suitable successors. The National Council, in which collective executive power would be vested, would consist of nine members representative of all principal political parties, governing by majority council vote. All this would be a rather interesting experiment.

Hungary: Overnight Step from Inflation to Deflation

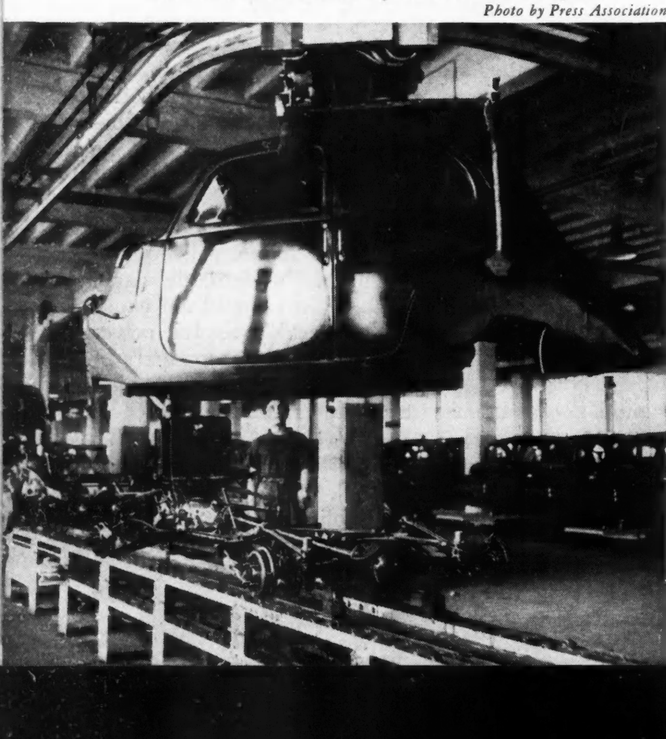
Hungary's nightmarish super-inflation ended abruptly on August 1, when a new currency replaced the worthless pengo. The new unit of exchange, forint, is worth 11.74 cents in American money; it was made equivalent to 200 million so-called "tax pengoes," which in turn had replaced a few weeks ago the regular pengoes (the rate was about one billion old pengoes to one tax pengo), which had become worthless. Simultaneously, with the currency reform, drastic laws curbing speculation and maintaining stable prices went into force. To make sure that the purchasing power of the population is no larger than the available volume of goods, the Hungarian Government has adopted measures carried out previously in Austria. Prices were set at a level about 2 to 2½ times as high as before the war, while the wage rates were cut about one-half the prewar level. Average earnings of the industrial worker under the new set-up are about $35-$40 a week, against which the cost of a new suit is about $120 and shoes around $30. The result will be a drastic reduction of the standard of living, particularly for city people.

The great question is: Will the currency reform work or will the forint eventually go the way of the pengo and the Greek drachma which has already been established three times. The answer depends (1) upon the attitude of the people themselves: will they be willing to go through hardship for several years to come until goods are available in sufficient quantities? (2) upon the Russians who have been collecting reparations from Hungary in the form of factory equipment, manufactured goods and food (the country has to feed large number of Soviet troops). If the Soviets insist upon retaining a large share of the goods as reparations, the chances are that there will not be enough goods to satisfy even the drastically reduced purchasing power of the Hungarian population. If the Hungarian farmer is unable to get manufactured goods, he is bound to refrain from selling his products even for the forints which are backed by some $33 million of gold recently returned from the American zone in Germany.

Hungary is one of the European countries hardest hit by the war. It is estimated that over 40 per cent of its prewar national capital (around $10 billion) was lost, as much by destruction as by systematic pillaging and by the Red Army's requisitions, politely called Reparations. Under the circumstances, the country probably is the weakest link in the chain of Russian satellite countries, kept in line by the presence of the Red Army and the communist-controlled Government. The Russians have a grip on Hungary's economy also through Russo-Hungarian joint companies controlling shipping, the promising oil industry, and other enterprises. Should the Hungarians be so lucky as to shake off the Russian yoke some day, the West will have to step in to rescue them politically and economically.

Despite the considerable rise in French production, debt will double by the end of this year.

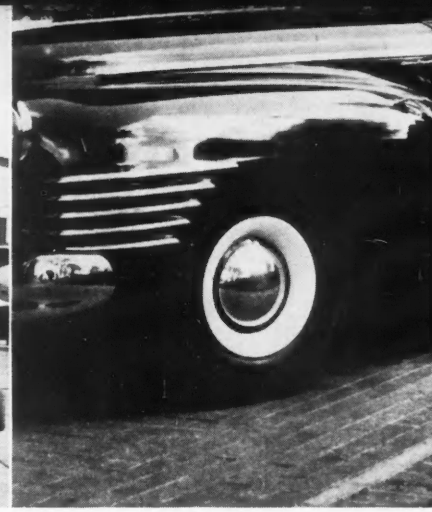
Photo by Press Association



Another Devaluation of Chinese Currency

On August 18, Chinese Premier T. V. Soong announced a 40 per cent devaluation of the Chinese dollar, which will make the U. S. dollar worth Ch 3,350 as against the old official rate of Ch 2,020. The move has not come as a surprise, since the U. S. dollar notes had been selling at a considerable premium for some time. Dollar notes can be legally dealt in, but may not be exported. According to the New York Times correspondent in Shanghai, Chinese financial circles feel that the increase to 3,350 is not enough and that the rate should have been—in view of the purchasing power of the Chinese dollar—somewhere between 6,000 and 10,000 Chinese dollars to one U. S. dollar. Such a rate, it is felt, would really have boosted up Chinese industrial and export development. The official explanation of the revaluation is that a better balance between China's exports and imports must be established to stimulate domestic production and to pay for imports.

China is one of the most expensive countries at present. This is not only because of the shortage of goods in relation to the purchasing power created by the Government presses, but also because the production of goods has been at a low level for the last nine years. Even if an American buys his black market Chinese dollars at the current rate of 7,000 Chinese dollars for one U. S. dollar, he will discover that he can buy fewer goods in China (but more services) than he does in the United States. No wonder that China has gone in heavily for importing. At present our commercial exports to China (excluding Lend- (*Please turn to page* 721)



1946 Special Re-appraisals of Values, Earnings and Dividend Forecasts

Prospects and Ratings for Motors, Accessories, Aircrafts, Specialties, Merchandise Shares

PART IV

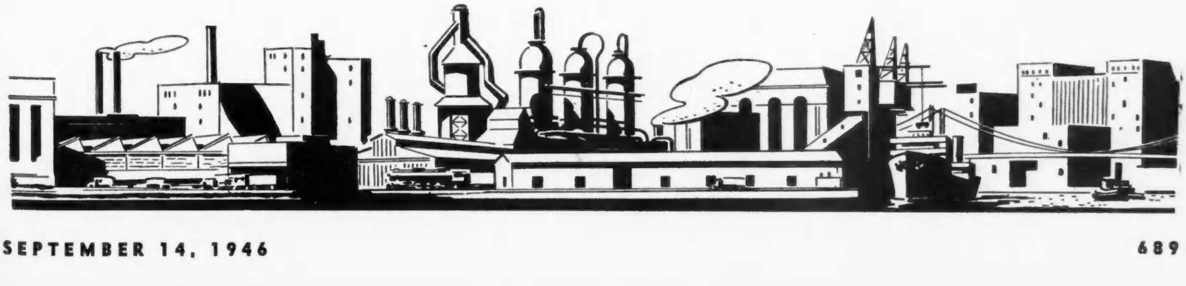
ENTRY OF THE ECONOMY into the second half year brings widely divergent prospects for shareholders in most concerns. Harassed by labor troubles, shortage of parts and materials, hampered by mounting costs and price restrictions, many enterprises have experienced tough going. Conversely, numerous companies have surged ahead to spearhead the race towards the long heralded boom.

Whether near term developments likely to emerge warrant confidence or pessimism to shareholders in this or that corporation has now become a serious problem, calling for access to facts and use of soundly based judgment. Seldom as at the moment have economics, politics and social forces combined to cloud potentials for stable income or appreciation. Hence, wise investors will be alert to scrutinize their portfolios, for with intelligent appraisal certain revisions may prove constructive; study of all weighty factors may suggest profit taking, substitutions or retention. In the light of current conditions, program policies perhaps should be entirely overhauled.

In order to assist our subscribers in formulating investment decisions, the Magazine of Wall Street presents its Security appraisals and Dividend Forecasts at six months intervals, in addition to its regular coverage of important economic and industrial developments in each issue. By this method, the maximum number of industries are periodically reviewed on the basis of recent information available, along with up-to-date statistical data for ready comparisons. Supplementing this, brief comments on the status of each individual company listed on the table are presented.

They key to our ratings of investment quality and current earnings trend of the individual stocks—the last columns in the tables, preceding comment—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of high grade investment quality with an upward current earnings trend.

Stocks marked with a W in the tabulations are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. Purchases for appreciation should of course be timed with the trend and investment advice offered in the A. T. Miller market analysis in every issue of this publication.



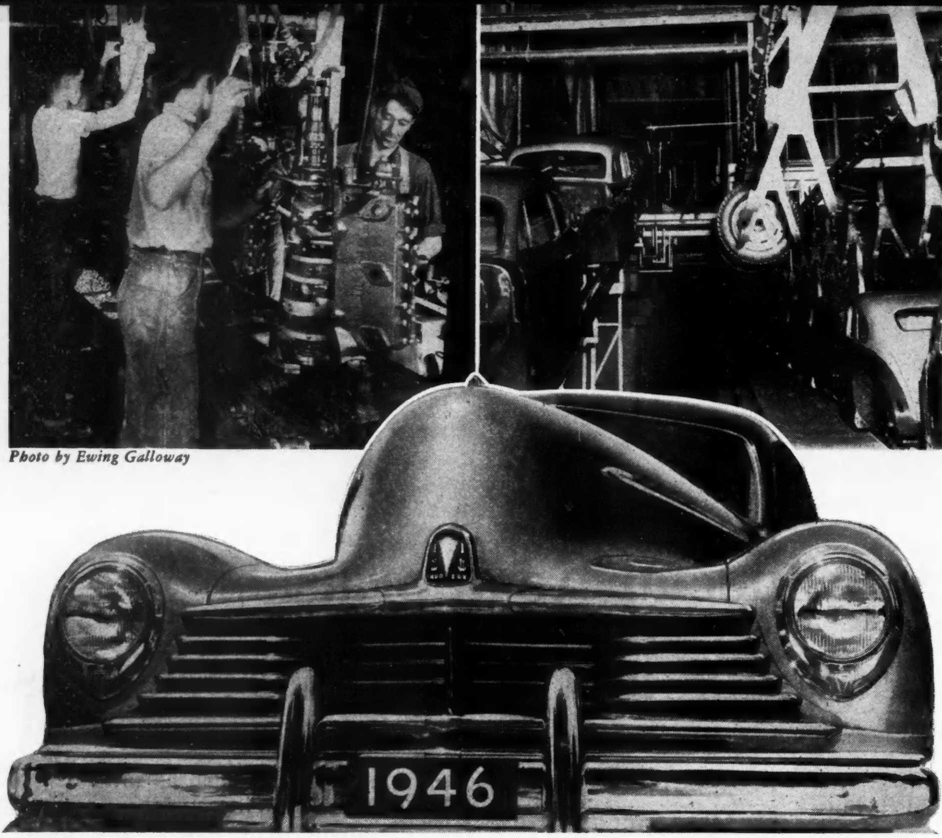


Photo by Ewing Galloway

Strikes and material shortages continue reduced car production.

Up-To-The-Minute
EVALUATION OF MOTORS
And Motor Accessories

By J. C. CLIFFORD

Failure of automobile production to fill the enormous back log of demand built up during the war for automotive vehicles, particularly passenger cars, is one of the biggest disappointments of the postwar era. The causes of this output deficiency are familiar by this time; but what may not be realized is that demand may wither in good part by the time automobile manufacturers are able to get around into full production. In consequence, that 6,000,000 yearly output of passenger cars and trucks anticipated for several years after the war may fall short of expectations. 1946 earnings likely will be impaired by low output in the first half of the year, but 1947 profits may not turn out to be so bright as generally was thought. That the stock market may be coming around to this view is to be seen in the bear market signals flashed by such leaders as Chrysler and General Motors and even by Mack Trucks, the foremost producer of heavy-duty trucks, output of which has held up better than that of passenger cars. Since the fortunes of auto accessories manufacturers are linked up with that of the automotive industry, similar considerations prevail for parts makers.

Strikes in suppliers plants and shortages of materials still are hampering automobile output. Ford assembly lines are stymied by strikes in 18 of its suppliers' factories; 50 of General Motors suppliers were strike-ridden on August 1 and crucial ones prevail today; and Chrysler suppliers have been harassed by strikes 140 times, and some are now going on. In addition, scarcities of a host of materials are holding back production. Despite the high level of steel output, there is not enough available for automotive makers because construction and farm equipment get first priority in use of steel and iron. The acute shortage of lead forms an important bottleneck in automotive production; for the industry consumes about 35% of total U. S. consumption of the metal. Lead is used in batteries and for solder, and it is for the latter purpose chiefly that lead is so much needed, as batteries makers have managed to get along on current meager supplies of the metal. Copper supplies, too, have not been coming along in the amount necessary to support large-scale output of radiators.

As a result of all these hindrances output of passenger cars is at near-depression levels. By mid-year Chrysler had produced 317,560 vehicles out of a total of 836,495 scheduled, and General Motors had turned out only 270,000 units by August 10 out of 1,275.000 scheduled. Packard had planned to produce 179,800 cars this year, but previous strikes and the recent "wildcat" one have forced a downward revision to 71,388 units scheduled. Total

Financial Survey of Leading Auto and Accessory Stocks

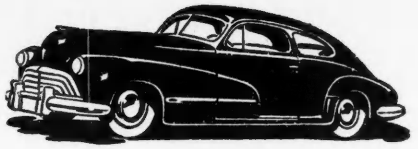
	Net Per Share 1946 Interim†	Net Per Share 1945 Fiscal Year	Net Per Share 1941-44 Average	Current Dividend*	1944 Dividend	Recent Price	Price Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Chrysler	$.93	$8.61	$5.96	$3.00	$3.00	$106	12.3	2.8%	B3	Second leading producer, threatened by union demand for higher wages. Uncertain future does not favor higher dividend.
General Motors	def.55	4.07	3.72	2.50	3.00	61	15.0	4.1	B3	No dividend increase likely for this foremost maker of autos. Diversified products will hold up volume, but the expected big production of passenger cars may not be forthcoming.
Graham Paige	def.21	.18	.27	......	......	9	50.0	....	C3	If demand falls off, this smaller unit will be bereft of the large volume of business anticipated for the postwar era. No dividend is to be looked for in the immediate future.
Hudson Motor Car	def.15	.42	1.45	.40	.40	23	54.8	1.7	C3	Dividend prospects are clouded by emergent production of leading producers who will give Hudson greater competition.
Hupp Corp.	def.05	.45	.26	......	......	8	17.7	....	C3	This small producer has an unimpressive earnings record. Initiation of dividend payment not probable.
Mack Trucks	def1.83	4.64	4.56	3.00	3.00	55	11.8	5.4	B3	High level production of trucks in coming months would assure continuance of present dividend.
Nash-Kelvinator	def.12Je9	.58	.91	.50	.50	19	32.8	2.6	C+3	Refrigerator line will bolster sales, but outlook for passenger car output rests on ability to obtain needed materials. Present dividend appears generous in relation to earnings.
Packard Motors	.05	.08	.26	......	.10	8	100.0	....	C+2	1946 earnings may prove disappointing because of continued strikes. Dividend outlook, therefore, is obscure.
Reo Motor	1.15	4.11	2.80	1.50	1.25	28	6.8	5.3	C+3	Trade position even today is minor. Current dividend is much too generous relative to sales prospects, and some reduction in payments is likely.
Studebaker	def.13	1.39	1.25	.50	.50	28	20.1	1.8	C+3	New model has found public favor and company is bound to gather a good share of whatever passenger car business develops. Present dividend should be continued.
White Motor	......	3.25	3.84	1.00(x)	1.25	31	9.5	3.2	B1	Prospects are enhanced by sustained demand for trucks and by entry into manufacture of buses. Maintenance of dividend seems likely.
Willys-Overland	def.05Mr6	1.14	.92	......	......	15	13.2	....	C+3	Although new management and products have given fresh life to the company, initiation of dividend payments must wait on proved sales.
American Bosch	def.72	2.29	1.63	.75	1.00	18	7.8	4.1	C+3	Sales of this accessory manufacturer depend primarily on automotive outlets, though marine and aviation engines also provide promising fields. Dividend appears secure.
Bendix Aviation	def.39Je9	7.31	6.59	2.00	3.00	42	5.7	4.7	B3	Diversified production of automotive and aircraft parts as well as household appliances place the company in a strong trade position. Dividend rate very likely will be continued.
Bohn Aluminum	.18Mr3	N.A.	5.82	2.75	3.00	54	....	5.1	B3	Basically an automobile parts producer, with diversified operations in manufacture of parts for the building industry, for aircraft, for makers of household appliances. Current dividend appear safe.
Borg Warner	.76	3.83	3.27	1.60	1.60	47	12.2	3.4	B2	Long established connections as an automobile parts manufacturer, and an important factor in the household appliance field. Chances are that dividend will be maintained.
Bower Roller Bearing	1.52	2.47	3.27	2.50	2.50	55	22.2	4.5	B2	Excellent earnings and dividend record of the company through depression years make for safeness of the dividend.
Briggs Mfg.	.16	3.07	2.64	2.00	2.00	39	12.7	5.1	C+3	Strikes still are plaguing this largest independent producer of automobile bodies; so that retention of present generous dividend is uncertain.

*—12 months to date. (x)—Plus 10% stock. †—For 6 months ended June 30, unless otherwise indicated. Mr3—For 3 months ended March 31. Mr6—For 6 months ended March 31. Je9—For 9 months ended June 30.

Financial Survey of Leading Auto and Accessory Stocks

	Net Per Share: 1946 Interim†	Net Per Share: 1945 Fiscal Year	Net Per Share: 1941-44 Average	Current* Dividend	1944 Dividend	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Briggs & Stratton (e)	$1.36	$1.53	$1.70	$1.00	$1.12	$30	19.6	3.3%	B—1	Stability of earnings and dividends renders sustained dividend payments likely.
Budd Co. (b)	deficitJe3	.64	1.14	......	......	16	25.0	....	C3	Basically an automobile parts producer, construction of stainless steel railway cars has become an important segment of the company's business. Restoration of dividend payments depends on ability to show profits in the second half of 1946.
Campbell, Wy. & Can	.65	1.52	2.37	1.25	1.25	30	19.7	4.1	C+3	Shortage of iron only flaw in bright demand picture for the company's products. Dividend appears safe.
Clark Equipment	def4.51	5.85	7.68	3.00	3.00	57	9.8	5.2	B—3	Large deficit in the first half of 1946 may reduce full year earnings. Retention of current dividend rate, therefore, is uncertain.
Cleveland Graphite Bronze W	1.73	3.65	4.56	2.00	2.00	63	17.2	3.2	B—3	Ability to produce earnings in depression years would assure sustained dividends.
Collins & Aikman	1.85My3	4.82	1.51	1.25	1.00	51	10.6	2.4	B—1	Present dividend is well covered by earnings thus far this year, making for retention of payments.
Dana Corp. (c)	.007My9	3.75	2.81	1.00	1.00	22	5.9	4.5	B3	Production rests on immunity from strikes which have been besetting automobile parts suppliers of late. Dividend prospects, hence, are cloudy.
Eaton Mfg.	1.04	4.86	5.25	3.00	3.00	54	11.1	5.5	B3	Company will have to show much larger earnings in the second half of 1946 to insure present dividend rate.
Electric Auto Lite	def.32	3.76	3.98	3.00	2.00	60	16.0	5.0	B3	Current dividend rate is endangered by the deficit recorded in the first six months of 1946.
Electric Storage Battery	1.69	2.20	2.57	2.00	2.00	48	21.8	4.2	B1	An acute shortage of lead may drastically interfere with production schedules. Current dividend is safe so long as output keeps going.
Houdaille-Hershey	def.003	1.44	1.75	.25	1.00	19	13.2	1.3	C+3	Continuation of small dividend rests on freedom from strikes.
Kelsey-Hayes, B.	def3.03My9	3.48	3.08	.75	1.50	18	5.2	4.1	C+3	Large deficit incurred in the first five months of 1946 renders dividend outlook obscure.
Motor Products	def.13Mr9	2.58	1.95	.50	1.00	25	9.7	2.0	C+3	Manufacture of frozen food equipment adds an element of stability to this company's production of highly cyclical automotive parts. Present dividend may be covered by earnings in the second half of 1946.
Motor Wheel	.48	2.61	2.32	1.20	1.20	28	10.7	4.3	C+3	Earnings in the first quarter of 1946 were at a full year rate exceeding 1945, thus promising maintenance of current dividend.
Raybestos-Manhattan	1.03	2.44	2.79	2.12½	2.12½	42	17.2	5.1	B3	Present dividend seems assured on basis of fair earnings in the first half of 1946.
Reynolds Spring	def1.63Mr6	.94	1.55	.50	1.00	23	24.4	2.1	C+3	Dividend payments rendered shaky by deficit shown in the first quarter of 1946.
Stewart Warner	def.11Mr3	1.28	1.41	.75	1.00	19	14.8	3.9	C+3	Difficulties attending production of radios and other durable goods as well as automotive parts puts dividend payments in an uncertain light.
Thermoid Corp.	......	.63	.87	.60	.55	14	22.2	4.3	C+3	Unimpressive earnings record obscures dividend prospects.
Thompson Products	.01	3.55	7.05	2.00	2.00	55	15.5	3.6	B—1	Maintenance of current dividend rate will depend on whether the company will be able to lift earnings sharply in the second half of 1946.
Timken Detroit Axle (a)	.76De6	2.55	2.43	1.00	1.00	21	8.2	4.7	B—2	Sales of axles geared to rising output of trucks, buses, and tractors. Oil burners provide a growing outlet in the consumer durable goods field. Dividend seems safe.
Timken Roller Bearing	def.41	2.22	2.97	1.87½	2.00	50	22.4	3.7	B3	Sustained strike in the company's plants may have irretrievably damaged production prospects. Hence, dividend payments stand to be jeopardized.

(a)—All figures adjusted for 2-for-1 split June, 1946. *—12 months-to-date. †—For 6 months ended June 30, unless otherwise indicated. (b)—Formed by merger of Budd Mfg. & Budd Wheel in June, 1946. (c)—Formerly Spicer Mfg. All figures adjusted for 3-for-1 split July, 1946. (e)—All figures adjusted for 2-for-1 split April, 1946. My9—For 9 months ended May 31. Je3—For 3 months ended June 30. De6—For 6 months ended December 31, 1945. Mr3—For 3 months ended March 31. Mr6—For 6 months ended March 31. Mr9—For 9 months ended March 31. My3—For 3 months ended May 31.



industry production of passenger cars for the first seven months of this year amounted to 862,383, and full year output may reach about 2,000,000. This figure compares with 2,124,746 cars produced in 1938 and 2,038,183 in 1931, both depression years, and with 4,068,935 in 1937 and 4,794,898 in 1929, previous cyclical peaks.

Truck makers have fared much better than this. Output of trucks in the first seven months of the year were 431,044 units, and the full year total may come to 1,060,000 units. If this figure is achieved, it will exceed all years save the peak quantity of 1,270,616 produced in 1941. Truck manufacturers, therefore, are and will be producing around maximum demand and output volume. For this reason, it will be in the passenger car field that the greatest potential gains lie.

Were it not for the enormous replacement business attendant on the large number of worn-out vehicles in operation today, automotive parts manufacturers would not be enjoying the volume of sales they have produced. Sales last year about doubled those of 1941, but the greatest growth was in replacement parts. These amounted to $1,285,000,000 in 1945 against $718,000,000 in 1941. Future business, of course, will rise in proportion to advancing automobile output, and production of original parts and accessories should provide the major source of volume. Some companies are engaged in other fields such as oil burners and ranges, refrigerators, household appliances, and aircraft products, and total revenues, therefore, will be conditioned by the volume of business secured in these lines.

Renewed Wage Demands

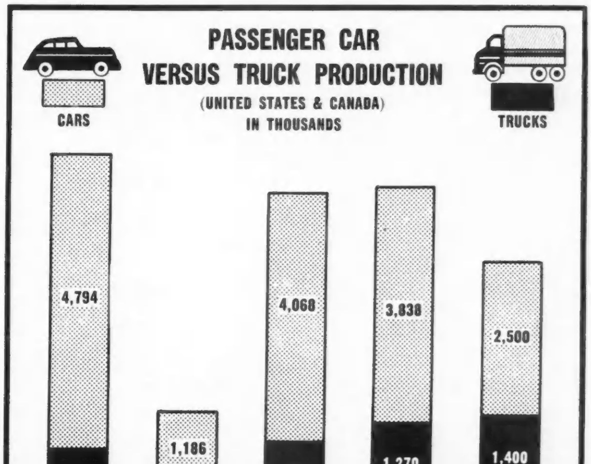
The almost unrelieved series of strikes this year and materials shortages are bad enough. Chrysler had to shut down for a week in August because of inability to obtain sufficient materials to keep going even at reduced volume of operations. Now the straw that threatens to break the camel's back has descended on the industry in the form of renewed labor demands for higher wages. On August 20 Walter P. Reuther, president of the United Automobile Workers, C. I. O., announced that the union would reopen its wage agreement on October 16 with the Chrysler Corporation and any other companies having similar contract provisions. Mr. Reuther further declared that requests for wage advances on that date would depend on how successful Government efforts were in holding back inflation and curbing price increases.

This maneuver endangers the production and profits vista of the industry. Another strike would be catastrophic in that output would be shut off for several months; since it is unlikely that manufacturers will accede to fresh demands for wage increases. Whether the UAW will go through with its strategy is questionable. Public sympathy, for one, may swing against labor in the event of another wave of strikes. Then, the union may not care to risk antagonizing Congress before elections for fear of repressive labor legislation. The trouble is that a faction within the UAW, opposed to Mr. Reuther, may force the issue by insisting on overriding the union chief's policy of avoiding additional pay rises. Hence, the labor situation in the automotive industry may be summed up as uncertain but menacing.

Export vs. Domestic Needs

Export trade hardly will be much of a factor in the automobile industry for some time to come. The demand is there, since 42% of motor vehicles in operation before the war in foreign countries have vanished from the roads. But American manufacturers cannot as yet fill domestic requirements let alone foreign needs. Meanwhile, Great Britain is going after export markets aggressively, planning to ship abroad about 50% of her motor vehicle output. When American manufacturers get around to producing for export, therefore, a good part of this market will have been filled with British-made cars.

A theoretical deferred demand for 6,000,000 passenger cars yearly for some years looks nice on paper, but may be difficult to achieve in practice for several reasons. One is that current prices may be too high to attract middle income brackets. Even the cheapest standard model now retails for around $1,200 compared with $700 to $800 for the same car before the war. Certainly, it was the latter price range about which mass production of passenger cars was built. Although consumer incomes are higher than in 1941, people who would contemplate the purchase of a car at $700 to $900 may hesitate or refuse to buy one at $1,200 and over. Federal Reserve Board restrictions on consumer credit which limit installment finan- (*Please turn to page* 720)



Factors Dominating AIRCRAFTS Outlook

By H. F. TRAVIS

Quite a few aircraft manufacturers have sufficient orders on hand to keep them busy throughout 1947, but limitations to further expansion of commercial business are now appearing on the horizon. Military orders still are the mainstay of the industry; and additional volume from this quarter depends on how serious a view is taken by the Government in regard to menacing foreign developments. 1946 in general will be a poor year for the industry from the standpoints of both production and earnings because of prolonged reconversion problems and the time required to get into stride on output of new models. Next year, however, should see aircraft makers in full production on current and prospective orders, and earnings correspondingly should be bettered.

Apart from military craft, the industry may be divided into transport and light plane makers. Economic factors governing business in each field are quite different. Unit price of a transport is so much greater than that of a light plane that, despite the greater number of the latter to be produced, dollar volume of transport manufacturers totals about three and a half times that of aggregate light plane volume. Orders on hand for transports, from foreign as well as domestic airlines, amount to around 1,300 planes valued at approximately $400,000,000; and total orders for private light planes now have come to 50,000 valued at $170,000,000. The balance of production lies in some 2,100 military craft estimated to cost around $600,000,000, thus bringing total industry orders on hand to $1,100,000,000. Some 400 transports, 30,000 light planes, and 2,000 military planes are expected to be delivered in 1946, bringing estimated sales this year to around $900,000,000. 1947 volume may amount to $1,170,000,000. 1946-47 sales, therefore, bid fair to be 12 times greater than the pre-1941 average, although but 6% of the wartime peak.

Aircraft Manufacturer's Order Backlogs
As of Mid-1946

Consolidated Vultee Aircraft	$264,910,000
Glenn L. Martin Co.	175,000,000
Douglas Aircraft	162,000,000
Boeing Airplane	130,000,000
Curtiss-Wright	90,000,000
Republic Aviation	84,000,000
North American Aviation	75,000,000
Piper Aircraft	25,000,000
Solar Aircraft	10,800,000
Ryan Aero	6,264,355

The question remains whether additional business is in store for the industry. The nation's airlines

Photo by Ewing Galloway

Pictured here is Army's new jet superfighter, the P-80 shooting star, fastest in the skies.

seem to have reached a temporary halting point in their expansion. By the end of 1947 deliveries of planes and those on order will increase the passenger mile capacity of the airlines to an amount surpassing the entire traffic of railroads and buses before the war. Higher speeds and greater capacity of new planes under construction as well as the larger number of planes will bring about this tremendous traffic improvement for the airlines. In that case, it would appear that the airlines will obtain sufficient planes from those already ordered to care for any increase in traffic in the next five years. As a matter of fact, it is feared that many orders placed are really commitments rather than actual contracts and that these will have vanished from manufacturers' books by next year. Hence, it must be concluded that present orders for transports represent a near-maximum, if not a maximum, that aircraft manufacturers may expect for some time.

As for the market for private light planes, the longer outlook is clouded by two factors: 1) lack of sufficient airport facilities to accommodate the growing number of private planes now in use let alone the increasing quantities yet to be flown; and 2) the possibility that the current sellers' market for light planes may change to a buyers' market some time next year. Since V-J Day private plane ownership has enlarged from 32,480 to 57,488 and by the end of 1947 the figure may stand at over 100,000. But there are simply not enough landing strips or storage hangars for such an amount of small sized planes. It is estimated that the New York area alone would (*Please turn to page* 724)

Financial Survey of Aircraft Stocks

	Net Per Share 1946 Interim	Net Per Share 1945 Fiscal Year	Net Per Share 1941-44 Average	Current* Dividend	1944 Dividend	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Beech Aircraft	$.26Je9	$9.31	$4.88	$1.00	$1.00	$19	2.1	5.2%	C1	Dividends clouded by greatly reduced profits.
Bell Aircraft	......	10.30	5.90	1.00	1.00	24	2.3	4.2	C+2	Large development expenditures on reduced sales endangers the current dividend.
Bellanca Aircraft	......	1.19	.95	.12½	.50	5½	4.6	2.3	C2	The company's poor earnings record and a not too ample financial position puts the dividend in a shaky state.
Boeing Airplane	deficitJe6	5.99	4.87	1.00	2.00	26	4.3	3.8	C+1	Increasing orders promise good volume of business in the latter part of 1946 and through 1947. Hence, earnings should be in the black from now on.
Cessna	......	.72	3.78	.25	.40	6	8.3	4.1	C+2	Restricted finances do not encourage higher dividends.
Cons.-Vultee Aircraft	......	4.72	7.53	2.00	2.00	23	4.8	8.7	C+3	Dividend may be reduced in order to conserve working capital.
Curtiss-Wright	......	2.97	1.91	.50	.75	7	2.3	7.1	C+1	Engine production now provides the principal line of manufacture. Dividends on the common are way out of sight.
Douglas Aircraft	4.35My6	14.93	17.10	5.00	5.00	92	6.1	5.4	B1	Well-established trade position and excellent earnings record plus good backlog of orders on hand promise retention of the current dividend.
Fairchild Camera & Inst.	......	1.38	2.77	1.00	1.00	12	8.7	8.3	C+3	Deflation of wartime business does not make for an encouraging outlook for earnings.
Fairchild Eng. & Airplane	......	.34	1.00	.20	.20	6	17.6	3.3	C3	Earnings have never been substantial, and this inferior record should continue in the foreseeable future.
Grumman Air. Eng.	......	11.25	5.26	1.50	1.50	39	3.4	3.8	C+1	The chief supplier of fighter planes for the Navy. Also has two high-priced commercial amphibians in production. Dividend may be retained.
Irving Airchute	......	.98	1.49	.50	1.00	10	10.2	5.0	C+3	Leading producer of parachutes. Business severely reduced, thus making for uncertain earnings and dividend prospects.
Lockheed Aircraft	......	5.08	6.33	2.00	2.00	30	5.9	6.6	C+1	Good backlog on hand and strong finances may allow continuance of the present dividend.
Glenn L. Martin	.79Je6	7.39	4.58	3.75	3.00	38	5.1	9.8	C+3	Has emerged as the leading producer of twin-engine transports. Present dividend may be retained.
North American Aviation	1.48Je9	4.24	2.19	2.00	1.25	13	3.1	15.4	C+3	A good backlog of orders and better earnings than expected in the first six months of 1946 may permit continuance of present dividend.
Northrop Aircraft	.09Fe7	1.85	2.55	.50	None	12	6.5	4.2	C3	Earnings are uncertain due to large development expenses.
Piper Aircraft	def.26Mr6	.21	.38	......	.12½	8	38.0	....	C3	One of the foremost makers of light planes with large orders to be executed. Small earnings power in the past, however, renders the dividend outlook cloudy.
Republic Aviation	.55Mr3	1.50	1.91	.50	.50	15	10.0	3.3	C3	Backlog is large and earnings prospects are good.
Ryan	.67Ap6	.85	1.46	.35	.35	8	9.4	4.3	C3	Manufactures light planes and jet-propelled craft for the Army. Earnings promise to cover the present dividend.
Solar Aircraft	.86Ap	1.76	1.10	.60	.50	20	11.4	3.0	C+3	Produces stainless steel exhausts for airplanes. Business on hand seems to assure earnings in 1946 somewhat exceeding 1945.
Sperry	......	3.45	3.64	1.75	2.00	27	7.8	6.5	B-2	Foremost supplier of aircraft instruments and equipment. Smaller earnings may make for a slight reduction in the dividend.
United Aircraft	.92Je6	4.35	5.74	1.50	3.00	27	6.2	5.6	B3	Large engine orders and development work furnish a promising outlook for the company's sales and earnings in 1947. Dividend now on a low base, and therefore should be continued.

*—12 months to date. Ap—For Fiscal Year ended April 30, 1946. Fe7—For 7 months ended February 28. Mr3—For 3 months ended March 31. Mr6—For 6 months ended March 31. Ap6—For 6 months ended April 30. My6—For 6 months ended May 31. Je6—For 6 months ended June 30. Je9—For 9 months ended June 30.

DIVERGENT TRENDS IN

Merchandise Shares... Department Stores... Mail Orders?

Photo by Gimbels-Wide World

Department store sales continue to establish new records with demand for merchandise unabated.

By GEORGE S. KENT

Bright outlook for merchandising companies continues undimmed in the face of many recent predictions that profits would drop sharply as a result of buyers' strikes, which, however, have not materialized, except that the public in general have shown a tendency to shy away from unknown and untried products. As long as consumer income remains high and business activity continues at a good rate, ample profits will be made by the merchandising companies. Although merchandising company shares had a substantial rise and were entitled to a setback for technical reasons, fundamental outlook for the shares is not materially affected. True, there have been buyers' strikes and the stores have been the first to realize this fact, but these have been confined to rebellion against shoddy merchandise and unknown brands, which the stores have been gradually weeding out of their inventories, and sales figures of the companies belie all indications made that they have passed their peak. Aside from huge temporary demand for all kinds of classes of consumers and durable goods, the main factor contributing to successful operations of the merchandising companies is the high level of national income. This is expected to reach a new peak this year, in excess of $160 billion probably double that of 1929. No present prospect exists for a serious depression, except possibly a temporary slump in business due to unsettled labor conditions and exorbitant wage demands, which conditions will eventually adjust themselves. Indications are that high level of business activity should continue for some time, with prospects of at least a five-year building boom, which alone creates heavy demand in many industries, also the many new and improved products which will be manufactured once the delayed demand for much needed goods and products has been satisfied.

Department store sales as reported by the Federal Reserve Board for the week ended August 17, last, showed a huge increase over like week of preceding year, due, in large part, to the two-day closing in 1945 in celebration of V-J Day. This increase for the country as a whole amounted to 90 per cent, and for the preceding week, with no abnormal conditions to compare with, increase over preceding year was 30 per cent. Increase in sales for four weeks ended August 17, was 43 per cent over the preceding year and for the year 1946 to date was 29 per cent over same period in 1945. Estimated increase in sales for week ended August

Pertinent Statistics on Merchandising Stocks

	Net Per Share 1946 Interim	Net Per Share 1945 Fiscal Year	Net Per Share 1941-44 Average	Current* Dividend	1944 Dividend	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Aldens	$2.11Je6	$1.58	$1.62	$.90	$.75	$38	24.0	2.4%	B1	Acquisitions of new retail units and expansion of mail order sales combined with lower taxes, should insure maintenance of present increased dividend rate.
Allied Stores	2.86Ap3	4.05	2.84	1.80	1.00	44	10.8	4.1	B—1	Substantial gain in earnings for present fiscal year, coupled with ample working capital should result in increased dividend rate with prospects of year-end extra.
Arnold Constable	......	1.30	1.13	1.00	.50	26	20.0	3.8	B—2	Increased sales combined with higher earnings as result of repeal of excess profits tax, should result in increased dividends.
Associated Dry Goods (x)	2.71Jl6	2.50	1.23	1.15	.50	26	10.4	4.4	B1	Net profits for first six months of fiscal year almost triple like period of preceding year and should result in increased dividends.
Best & Co.	3.00Jl6	2.21	1.75	1.80	1.00	41	18.5	4.4	B1	New units being built may cause directors to conserve cash for expansion program, but possibility is bright for year end extra dividend.
City Stores	.80Ap3	1.75	1.28	.75	.12½	26	14.8	2.9	C+1	First quarter earnings more than double preceding year. Prospects that increased dividend rate will be enhanced by year end extra.
Consolidated Retail Stores	2.71Je6	2.06	1.27	1.30	.70	30	14.5	4.3	C1	First half earnings more than double like period of preceding year. Increased present dividend rate will probably be supplemented by year-end extra.
Federated Dept. Stores (y)	1.20Ja6	2.16	1.62	.94	.75	30	13.8	3.1	B2	Earnings for fiscal year ended July 31, 1946 estimated to exceed $4 per share on new stock, and possibility of much greater earnings for next fiscal year, should result in substantial increase in dividends.
Fishman (M.H.) Co.	......	1.48	1.32	.90	.75	23	15.5	3.9	C+1	Earnings should show considerable increase over preceding year, with increase in sales and elimination of excess profits tax. Outlook for increased dividends.
Gimbel Bros. (z)	......	3.33	1.60	1.07	.33	54	16.2	2.0	B1	Earnings for 1946 estimated to exceed $10 per share. Outlook is bright for increase in dividend from present conservative 30 cents quarterly rate and year-end extra.
Grant, W. T.	......	1.66	1.55	.85	.70	32	19.3	2.6	A2	With elimination of the excess profits tax and increase in sales, earnings for current year are estimated to exceed $4 per share on present common. Outlook bright for increase in dividend rate and/or year end extra.
Green, H. L.	3.33Jl6	4.42	3.84	3.50	2.50	79	17.8	4.4	A1	Earnings for current year estimated at in excess of $10 per share. Good outlook for dividend increase and year end extra.
Interstate Dept. Stores	2.51Jl6	3.42	3.25	1.40	1.00	35	10.2	4.0	B1	Earnings for current year estimated to exceed $6 per share. Prospects bright for dividend increase and year-end extra.
Kobacker Stores	.96Jl6	1.37	.75	.60	.18	14	10.2	4.3	C1	Earnings of 96 cents a common share for six months ended July 31, 1946 established record for the period and should be considerably bettered in last half. Maintenance of present dividend rate seen assured with extra a possibility.
Kresge, S. S.	......	1.93	1.59	1.60	1.20	38	19.7	4.2	A1	Earnings for current year estimated at approximately $4 per share, with prospects of increased dividend and year end extra.
Kress, S. H.	......	2.13	2.13	2.70	1.60	52	24.4	5.2	B2	Current years earnings estimated at approximately $5 per share. Prospects bright for dividend increase and extra at year end.
Lane Bryant	5.45My	3.99	2.22	2.00	.75	47	11.8	4.3	B1	Considerable increase in earnings anticipated in current fiscal year over year ended May 31, last. Increase in dividend rate seen with year-end extra possible.
Lerner	......	2.17	1.38	1.19	.83	33	15.2	3.6	B1	Earnings for current fiscal year estimated in excess of $5 per common share. Dividend increase seen with possibility of year-end extra.

* 12 months-to-date. My—Fiscal year ended May 31, 1946. Ja6—For 6 months ended January 31. Jl6—For 6 months ended July 31. Ap3—For 3 months ended April 30. Je6—For 6 months ended June 30. (x)—All figures adjusted for 2-for-1 split June, 1946. (y)—All figures adjusted for 2-for-1 split August, 1946. (z)—All figures adjusted for 3-for-2 split January, 1946.

Pertinent Statistics on Merchandising Stocks

	Net Per Share 1946 Interim	1945 Fiscal Year	1941-44 Average	Current* Dividend	1944 Dividend	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Macy, R. H.	1.68Ja6	2.73	1.61	2.60	2.00	50	18.3	5.2%	B1	In view of considerable expansion plans of this company, conservative dividend policy is seen, with maintenance of present rate and usual year-end extra.
Marshall Field X	3.48Je6	2.31	1.61	2.00	1.00	44	19.0	4.5	B—1	Earnings for current fiscal year estimated at approximately $8 per common share. Maintenance of present liberal dividend policy seen.
May Dept. Stores X	3.51Jl6	2.94	2.00	2.10	1.50	56	19.0	3.7	B1	Earnings for current fiscal year estimated at approximately $8 per common share. Maintenance of current increased dividend seen with possibility of year-end extra.
McCrory Stores	3.09Je12	2.00	2.01	1.25	1.00	32	16.0	3.9	B1	Earnings for current fiscal year estimated at approximately $6 per common share. Maintenance of present dividend seen with possibility of year-end extra.
McLellan Stores	2.75Jl12	2.02	1.52	1.10	.85	27	13.4	4.1	B1	Earnings for the current fisal year estimated at in excess of $4 per common share. Maintenance or increase of present dividend seen with possibility of year-end extra.
Melville Shoe (y)	1.05Je6	1.05	1.12	1.00	1.00	27	25.6	3.7	C+1	Prospects bright for increased dividend and possibility of year-end extra.
Mercantile Stores X	.73Mr2	1.21	.92	.85	.25	27	22.3	3.1	B1	Earnings for current fiscal year estimated at approximately $5 per common share. Possibility of dividend increase and year-end extra.
Montgomery Ward X	4.36Je5	4.12	3.79	2.00	2.00	75	18.2	2.7	B1	With huge increase in sales, earnings for current fiscal year are estimated at between $9 and $10 per common share, giving effect to issuance of new stock. Dividend increase seen and/or possibility of year end extra.
Murphy, G. C. (w)	....	1.55	1.42	1.19	.75	41	26.4	2.9	A1	Earnings for current fiscal year are estimated at approximately $4 per common share on present capitalization. Maintenance of present dividend seen with year-end extra a possibility.
National Dept. Stores (v)	....	2.91	2.18	1.00	.50	27	9.3	3.7	B1	Earnings for current fiscal year estimated at $5 to $6 per share. Ample working capital for this company and excellent earnings should result in increased dividends and year-end extra.
Newberry, J. J. W	......	1.93	1.75	1.05	.60	31	16.1	3.4	B2	Earnings for current fiscal year estimated at approximately $5 per common share. Good possibility of dividend increase and year-end extra.
Neisner Bros.	3.03Je6	4.26	4.11	1.25	1.25	67	15.7	1.9	B1	Earnings for current fiscal year estimated at approximately $3 per common share on split stock. Liberal dividend policy anticipated.
Penney, J. C. (u) W	2.17Je6	2.11	2.13	1.87	1.67	52	24.6	3.6	A1	Earnings for current fiscal year estimated at approximately $5 per common share. Possibility of increased dividends with year-end extra.
Schiff Co. (t)	2.95Je6	2.74	2.22	1.50	1.17	43	15.7	3.5	C+1	With earnings of $2.95 a common share reported for six months ended June 30, last, prospects are good for dividend increase.
Sears Roebuck W	1.64(a)	1.52	1.49	1.25	1.06	41	26.9	3.0	A1	With record sales and earnings for current fiscal year, prospects are bright for increased dividend and possibility of year-end extra.
Spiegel	.69Je6	.55	def.74	None	None	22	40.0	....	C+1	Resumption of common dividends likely, with earnings for current year estimated at in excess of $2 per common share.
Sterchi Bros. Stores (y)	1.80Je6	.72	1.28	1.50	.15	26	36.0	5.7	—	Earnings for current fiscal year estimated at $4 per common share with continuation of present liberal dividend policy likely.
Woolworth, F. W. W	......	2.43	2.43	2.10	1.60	51	21.0	4.1	A2	Earnings for current fiscal year estimated at $4 per common share. Increased dividends likely with possibility of year-end extra.

(w)—All figures adjusted for 4-for-1 split February, 1946. (v)—All figures adjusted for 1½-for-1 split June, 1946. (u)—All figures adjusted for 3-for-1 split, January, 1946. (y)—All figures adjusted for 2-for-1 split, August, 1946. (t)—All figures adjusted for 3-for-2 split March, 1946. (a)—24 weeks to July 16, 1946. Mr2—For 2 months ended March 31. Je5—For 5 months ended June 30. Je6—For 6 months ended June 30. Je12—For 12 months ended June 30. Jl12—For 12 months ended July 31. *—12 months to date. Jl6—For 6 months ended July 31.

25, 1946, was 48 per cent for New York City alone over corresponding week of 1945, according to the Federal Reserve.

Any analysis of department stores would not be complete without discussion of their financial condition. Probably never before in the history of these companies were they in such excellent financial condition. Many of these companies were on the verge of receivership during the last depression and some of them were actually reorganized. With few exceptions all or most of these companies had large funded debt and preferred stock issues with large accruals of unpaid dividends. The present picture is entirely different. Most of these companies are either without any funded debt entirely, or can pay off any funded debt existing out of net working capital without impairment of these funds to an appreciable extent. Practically none of the companies have preferred issues with arrears, and most of these preferreds have either been retired or refunded at a much lower dividend rate. Net quick assets of many of the companies exceed market value of the common shares and the general picture is one of ability to weather any major storms of a financial nature.

Profits Maintained

In the face of higher wages and other selling costs, gross profit margins have been well maintained, aided by higher selling prices and economies as a result of huge sales increase, with scarcities of many types of goods still the prevailing factor, but shortages should be eliminated soon in the case of wearing apparel lines. Profits have been more than doubled in most cases due to repeal of the excess profits tax.

With increasing supplies of goods, and consumer income expanding due to increasing employment and the best half of the sales year still to come, department store outlook is increasingly bright and prospects are that most of the companies, in addition to already increased dividends, will pay substantial year-end extras. With increasing supplies of durable goods a prospect for latter part of the year and into 1947, the stores should have substantial business in refrigerators, stoves, furniture and other items of like nature for the establishment of new homes and the huge replacement demand of older and obsolete home equipment existing. While consumer income is high many homes will be completely refurnished and reequipped.

Finances Strong

An indication of results of the department stores may be gained by showing made by some of the larger units such as Allied Stores, largest of the department store chains, which reported common share earnings of $2.86 a share for the quarter ended April 30, 1946 against $1.05 a share for comparable period of 1945, and earnings for the full year are estimated at about $9 per common share. This company has no funded debt and has $20,000,000 of 4 per cent preferred stock ahead of the common stock, with net working capital exceeding $48 million or almost 2½ times the par value of the preferred stock outstanding, at close of the last fiscal year.

Net sales of this company increased from approximately $107 million in 1937 to over $281 million in the 1945 fiscal year. Another of the larger units, Associated Dry Goods, reported common share earnings for the six months ended July 31, 1946, equal to $2.71 a common share (split two for one in June, 1946) and earnings for the full year are estimated to exceed $6 per common share. Net working capital at close of last fiscal year amounted to $22 million with total debt consisting of $5,695,000 of mortgages outstanding.

Results of Other Units

Earnings of Federated Department Stores are estimated to exceed $4 per common share on split shares for fiscal year ended July 31, 1946, and for the current fiscal year should be considerably higher. Net working capital on August 4, 1945, exceeded $47 million as against total long term obligation (subsidiaries) of approximately $16 million. Gimbel Bros. earnings are estimated to exceed $10 per common share for current fiscal year and net working capital of this large unit exceeded $47 million on January 31, last, as against total funded debt of $26 million, and $17,859,000 of $4.50 preferred stock outstanding.

Earnings of R. H. Macy & Co. for fiscal year ending July, 1946, are estimated at about $4.50 a common share with prospects of much higher earnings in the current fiscal year. Net working capital on February 2, 1946, was approximately $54 million as against total funded debt of $16,513,000 and preferred stock of $16,560,000.

Marshall Field's income for current year is estimated in excess of $8 per common share, and net working capital at close of 1945 aggregated $28 million with no funded debt and only $15 million of 4½ per cent preferred (*Please turn to page* 718)

DEPARTMENT STORE SALES AND STOCKS

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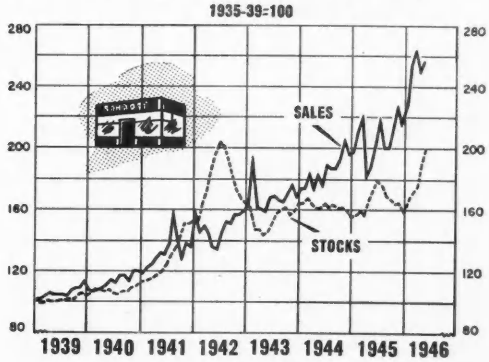


Federal Reserve indexes. Monthly figures, latest shown are for May.

Financial Survey of Specialty Stocks

	Net Per Share									
	1946 Interim†	1945 Fiscal Year	1941-44 Average	Current* Dividend	1944 Dividend	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Abbott Laboratories (a)	$3.05	$1.79	$1.66	$1.05	$1.10	$70	39.1	1.5%	A1	Long established in ethical drug field. Exceptional sales growth likely to continue. Expanding earnings assure dividend.
American Bank Note W	1.66	1.62	1.25	1.40	1.00	36	22.2	3.9	C+2	Leading specialist in production of bank notes, stamps and certificates. Uptrend in volume enhancing dividend stability.
American Can	deficit	4.23	4.75	3.00	3.00	98	23.1	3.1	A1	Largest producer of containers for canning. Sharp recovery from strike-caused slump probable. 1947 dividends may be increased.
American Chain & Cable	.56	2.42	3.20	1.70	2.00	29	12.0	5.9	C+3	Strikes and lower sales may reduce 1946 net somewhat. Current 35 cents per share quarterly dividend seems reasonably safe.
American Chicle	3.37	6.83	7.02	5.00	5.00	139	20.4	3.6	A+2	Heavy consumer demand for gum favors prospects but scant sugar supplies an adverse factor. No change in dividend likely.
American Hide & Leather	def.07Je	.72	.67	None	None	9	12.4	....	C3	Large producer of standard calf and dress leathers, with unimpressive earnings record. Small chance of dividend in near term.
American Home Products	3.91	5.28	4.97	3.00	2.70	100	19.0	3.0	A1	Ranks near top as producer of many proprietary and pharmaceutical items. Earnings trend up currently. Dividend amply covered.
American News (b) X	2.96	3.29	2.16	1.77	.90	48	14.6	3.7	B1	Oldest and largest distributor of magazines, papers and stationary. Long unbroken dividend record likely to continue.
American Safety Razor (e) W	1.29	1.33	.67	.75	.42	17	12.8	4.4	B1	Second largest in its field, with sharp uptrend in 1946 sales and profits. Earnings protect dividend by substantial margin.
American Viscose	3.20	2.32	3.09	2.00	2.00	62	26.6	3.2	B2	Capacity demand for rayon products and expanded facilities brighten outlook. Uptrend in earnings indicated. Dividend well assured.
American Woolen X	24.15	14.63	7.96	None	None	54	3.7	....	B1	World's largest concern in field. Approval of recapitalization plans improves structure. Large earnings benefit dividend outlook.
Archer-Daniels-Midland X	2.52Mr9	2.16	2.28	.80	.83	33	15.2	2.4	B1	Record peacetime demand for linseed oil and flour bolster near term prospects following temporary supply shortages. Dividend appears secure.
Bristol-Myers	2.88	1.71	1.85	1.93	1.00	54	31.5	3.6	A1	Third largest producer of proprietary drugs, with stable dividend record. Uptrend in profits assures continuance of current dividend rate.
Brown Shoe	1.96Ap6	1.60	1.88	1.15	1.00	38	23.7	3.0	B—1	Record production and sales enhance outlook for this third largest competitor in field. Liberal share of earnings usually distributed.
Canada Dry (c)	.63Je9	.78	.84	.40	.33	15	19.2	2.6	B2	Despite sugar shortage, wider profit margins on liquors and soft drinks tend to swell earnings. No change in dividend probable.
Celanese	2.68	2.83	3.09	2.00	.50(x)	63	22.2	3.2	B1	Dominant factor in cellulose field with ample product diversification. Expanding volume and tax relief lifting earnings. Dividend secure.
C.I.T. Financial	.69	1.61	3.44	2.00	2.55	50	31.0	4.0	B—3	Delay in automobile and other durables production restricting volume buying of receivables. Outlook good but maintenance of dividend uncertain.
Cluett Peabody W	3.03	2.82	3.26	2.00	2.00	50	17.7	4.0	B2	Substantial demand for shirts and collars enhancing sales and net. Current dividend amply earned and some prospect of rate betterment.
Commercial Credit W	.79	2.40	3.48	2.00	2.25	47	19.6	4.2	B2	Bright prospects for increasing installment financing after current slump, and strong financial position favor chances for stable dividend.

*—12 months to date. (x)—Plus stock. Je—Fiscal year ended June 30, 1946. †—For 6 months ended June 30, unless otherwise indicated. (a)—All figures adjusted for 2-for-1 split April, 1946. (b)—All figures adjusted for 2-for-1 split March, 1946. Mr9—For 9 months ended March 31. Je9—For 9 months ended June 30. (c)—All figures adjusted for 3-for-1 split July, 1946. (e)—All figures adjusted for 3-for-1 split August, 1946. Ap6—For 6 months ended April 30.

Financial Survey of Specialty Stocks

	Net Per Share									
	1946 Interim†	1945 Fiscal Year	1941-44 Average	Current* Dividend	1944 Dividend	Recent Price	Price-Earnings Ratio	Dividend Yield	Investment Rating	COMMENTS
Diamond Match	$1.07	$1.70	$1.61	$1.50	$1.50	$42	24.7	3.6%	A2	Dominant match producer. Tax relief tending to raise net earnings. Possibility that dividend may be raised in medium term.
Dresser Industries X	def.84Ap6	1.77	2.22	.60	.50	24	13.5	2.5	C+3	Important maker of machines for producing and handling oil, gas, water and vapors. Temporary earnings slump make dividend uncertain.
Endicott Johnson X	4.92My12	4.88	4.85	3.00	3.00	79	16.2	3.8	B2	Ranks second among shoe manufacturers. Expanding sales and price relief brighten earnings outlook. Dividend well assured.
Gar Wood Industries	def.20Ap6	.54	1.01	.20	.40	14	25.9	1.4	C2	Diversified producer of boats, air conditioning, hoists, tanks and road machinery. Sales straining capacity. Dividend outlook good.
Gillette Safety Razor	2.16	1.74	.98	1.85	.80	33	18.9	5.6	B+2	Leader in its field. Sharp uptrend in worldwide sales lifting earnings. Dividend widely covered, with prospects for year end extra.
Glidden X	2.13Ap6	2.13	2.17	2.00	.90	47	22.0	4.2	C+1	Long established maker of paints, varnishes and oil products. Heavy demand and widening profit margins favor dividend liberality.
Greyhound W	3.17	3.30	3.18	2.15	1.25	44	13.3	4.9	B1	Dominant operator of long haul passenger buses. Despite competition, income tending to increase. Current dividend amply earned.
Industrial Rayon (b)	2.72	1.31	1.21	1.62	1.00	48	36.6	3.4	B1	Ranks third in industry. Expanded facilities and large demand tend to lift earnings, thus lending confidence in dividend stability.
International Shoe	.84My6	1.66	2.01	1.80	1.80	44	26.5	4.1	B2	Largest maker of shoes, with strong trade position. Current production and sales at high level. Year end extra dividend possible.
Lambert W	2.84	2.97	2.11	2.25	2.00	50	16.8	4.5	B1	Prominent in field of oral antiseptics and ethical drugs. Sales and earnings tend upward. No change in dividend apparent.
Life Savers W	1.30	1.76	1.60	1.40	1.30	34	19.3	4.1	A1	Tax relief offsetting temporary sales dip due to sugar scarcity, but net profits improving. Bright outlook favors chance for dividend rise.
National Oil Products	1.81	2.29	2.75	1.45	1.10	51	22.2	2.8	B1	Well established producer of processed oils for many industries. Uptrend in sales and net point to sustained dividend outlook.
Savage Arms	.63	.52	2.44	.50	.75	13	25.0	3.8	C2	Large current demand and freedom from price control enhance prospects, furthered by product diversification. Dividend probably safe.
Simmons	1.90	2.34	2.44	1.25	1.25	45	19.2	2.8	B1	Dominant producer of sleeping equipment. Outlook for volume and profits bright despite temporary handicaps. Dividend payments may possibly improve.
Sterling Drug	1.94	2.60	2.24	1.80	1.50	51	19.6	3.5	A1	Leading maker of household remedies and proprietaries. Recent acquisitions and expansion swelling profit potentials. Dividend stability assured.
United Merch. & Mfrs. (a)	1.16De6	1.30	1.07	.73	.33	19	14.6	3.8	B1	Holding concern for important cotton and rayon mills, both at home and abroad. Prospect of rising sales and profits lends speculative appeal.
Vick Chemical (b)	2.35Mr9	2.02	1.79	1.40	1.00	41	20.2	3.4	B1	Outstanding as producer of cold remedies. New lines and good cost control favor prospects of earnings uptrend. Good record of dividend liberality.
Walgreen	1.50Mr6	2.20	2.24	1.60	1.60	42	19.0	3,9	C+2	Second largest operator of drug store chains. Uptrend in volume plus tax benefits tending to lift earnings. More liberal dividends a possibility.
Wrigley W	1.81	2.96	3.46	3.00	3.00	74	25.4	4.1	A2	Despite lower sales due to chicle scarcity and sugar restrictions, tax benefits tend to support net. Dividend probably secure and prospects favorable.

*—12 months to date. †—For 6 months ended June 30, unless otherwise indicated. De6—For 6 months ended December 31, 1945.
(a)—All figures adjusted for 3-for-1 split July, 1946. Mr9—For 9 months ended March 31. My6—For 6 months ended May 31.
(b)—All figures adjested for 2-for-1 split May, 1946. Mr6—For 6 months ended March 31. Ap6—For 6 months ended April 30.
My12—For 12 months ended May 31.

BUILDING Your Future Income

EDITORIAL:

APTITUDE

ABOUT THIS OR THAT promising young business man the comment is often heard that he is likely to succeed in whatever he undertakes in life. Chances may well be that in nearly every such case the optimistic appraisal was well warranted, but, even so, the odds in favor of eventual success might rise substantially were the aspirant early enough aware of his natural aptitudes.

Just because the typical American is a "J. Robinson Do-So," with native ability and determination to carve out a career for himself despite all handicaps which may present themselves, is a poor argument for starting off in some seemingly lucrative position for which, if the truth were recognized, his fundamental abilities are unsuited and such hidden handicaps as he may possess may create difficulties. Undeniably, he may reach his goal in due time, but to get there faster, with more pleasure and profit, it would be wise in advance to study himself as well as the opportunity offered.

Far too often, later-life experience discloses formerly unsuspected talents and aptitudes which, if developed sooner, would have greatly smoothed the path to success. To discover these natural advantages in self equipment is no easy task, but scientific study has made great progress in facilitating the process. Indeed, for a reasonable sum it is now possible to secure highly rated professional assistance for an analysis of one's personal bents and handicaps. While these tests are not infallible, they have proven of value in countless instances.

• This Department is dedicated to serve men in building up a reserve through every known means that will create stability—bringing the comforts and joys of life—and happiness.

It's our contribution, too, toward the firming of the foundation of our economy so that we will retain our status as free men and women in a new world.

To you, our subscribers, we extend an opportunity to assist in spreading this doctrine toward security and right thinking—in the schools and universities, and in your own homes and offices.

We are happy to cooperate and serve.

C. G. Wyckoff, Publisher.

Individual Achievement

Under Free Enterprise

By WILLIAM A. HOWELL

WORKING DOLLARS are the only ones which create new jobs and opportunities, and which continuously pour new life blood into the free enterprise system. One of the best examples of this basic economic fact is perhaps the record of Howard Hughes, noted industrialist, motion picture producer and airplane designer-flyer, who has piled one business success on top of another.

Mr. Hughes could have led a life of ease for the past couple of decades on the income from Hughes Tool Company which supplies a large percentage of the world's oil wells with drilling equipment. He elected to put this money to work in other businesses where new jobs would be created and industrial progress advanced.

Although reported to have inherited $17,000,000, the lean, soft-spoken Texan actually only inherited a three-quarters interest in the Hughes Tool Company. The government at that time (1924) appraised the company's assets at $650,000. Mr. Hughes, who is now 40 was only 18 then and attending school. However, he considered it his duty to take over the family business and succeeded in getting the Texas courts to overcome a legal technicality which would have prevented his acquiring ownership until he was 21.

As the Hughes income increased, Mr. Hughes purchased the remaining interest in the company from other members of the family and looked around for other fields of investment. Before he was 21, he invaded Hollywood as a motion picture producer, subsequently introducing such stars as Jean Harlow, Pat O'Brien, George Raft and Paul Muni.

• The Magazine of Wall Street is continuing herewith a new feature series dedicated to the proposition that only under a free economy can individual achievement be realized to its fullest degree. In this and following issues we are presenting brief biographical sketches on leaders in various fields of endeavor who can testify to the merits of free enterprise as opposed to a regimented economy.

Photo by Press Association

HOWARD HUGHES

Tool manufacturer, motion picture producer, airplane designer and manufacturer, test pilot, sportsman and holder of airplane speed records, Mr. Hughes is unique among industrialists.

Interested in aviation from childhood, Mr. Hughes learned to fly at the age of 14, later went on to contribute substantially to commercial and military aviation research and development and to win a long list of awards including the Harmon and Collier trophies, the Octave-Chanute award and the Congressional medal. He organized the aircraft division of his interests in the late 1920's.

In 1935 he designed and developed a high-speed long-range plane with which he later established a new world wide land-plane speed record of 352 miles an hour. Further research and development preceded his establishment of a transcontinental non-stop record in 1937 and an around-the-world flight record a year later.

From his aviation experiments and research, Mr. Hughes contributed substantially to long-range navigation knowledge and to the development of the modern plane. He conceived the idea of a twin-boom ship which was the forerunner of the P-38. He put considerable research into the development of the Constellation and is now (*Continued on page* 718)

Answers To INSURANCE *Inquiries*

By EDWIN A. MULLER

More On Special Purpose Accident Policies

Sir:

I have just read your article on Special Purpose Accident Policies in the August 3rd issue of The Magazine of Wall Street. This is what I am interested in and would appreciate your telling me where I could obtain a policy of that nature with a good company.

I am 45 years old, born February 25, 1901, occupation, Accountant. I have a policy with Mutual Benefit Health and Accident Association paying $13.90 quarterly, $3.90 per quarter for hospitalization plus $10.00 quarterly, per folder attached. As before stated, I have been told by several that these Mutual's are not too reliable and I would like to get in a Company that I can feel sure of.

I noticed that you mention a premium of $63.50 annually. Does this cover a weekly indemnity of $100.00? I could easily afford the $63.50.

Will you kindly tell me if the Mutual Benefit Health & Accident Association is reliable and the best I could buy for the money, or have you something that you think would be better for me.

I.M., Detroit, Mich.

HE ACCIDENT POLICY which I described covers insurance for accident only and the premium as quoted was $63.50 annually. Under this form the benefits are as outlined in the accompanying illustration. $50 is the weekly indemnity doubling to $100 if accident should occur on a public conveyance.

If this is the type of contract you wish, it is issued by the Aetna Life Insurance Company.

On the other hand if you wish a combination Hospitalization, Surgical and Medical policy I am enclosing description of such a contract as issued by the Continental Casualty Company of Chicago. Under the $700 plan you will notice Hospital Benefits are payable at the rate of $7.00 per day, Doctor Bills $3.00 per day and incidental expenses, operation fees, etc., as outlined, up to a total of $700. The premium for this coverage which covers both accident and sickness expense is $43.35.

Insurance Planning for a Civil Service Employee

Sir:

I enjoyed your informative articles on Special Purpose Accident Policies. Is there a policy written without life insurance and loss of member payments but with hospital and medical expenses and life income to begin, say, sixty to ninety days after accident?

Here is my set up. I have been a Federal Civil Service Employee for eleven years except for three years as a naval officer. My "take-home" pay after deducting income tax and five percent for retirement is nearly $4,000 annually. I will be 38 in November and am married with no children.

My life insurance consists of $1,000 Ordinary Life purchased at age 20, premium $18.70; $1,560 enlowment at 65 purchased at age 25, premium $47.06; $5,2000 endowment at 65 purchased at age 26, premium $156.00 and National Service Life $10,000 Ordinary Life purchased at age 37, premium $226.00. Total cost of all is $447.76. Dividends have been left to accumulate so that now, on my commercial policies, the increase in the cash value plus accumulations each year slightly exceeds the premium. So I feel that that no longer costs me anything but is more of a saving. Also I feel that I do not need any more life insurance in an accident policy.

Regarding other expenses, I carry group hospitalization under the Blue Cross Plan which for 90c a month pays hospital room up to $3.50 a day for me, $2.50 a day for dependents, and provides routine hospital and operating room service not exceeding 30 days in any 12 month period. Also my auto insurance policy provides medical payments up to $500 in case of accident.

As to income, Federal employees receive sick leave and annual leave both accumulative to certain limits. Also department heads may grant advance leave against future accruals. Because the leave is only working days and the work day is a five day week, accumulating would continue for a long period. With accumulations, I believe I could be off work for from two to three months without loss of pay.

Therefore, if I could secure a policy paying a life income of say $75 per week to begin 60 or 90 days after accident and to cover all hospital, medical, physician and surgeon, I believe I would have a fairly complete coverage. I would probably drop my Blue Cross Plan. For my wife, I would need only hospital and medical payments. What would the premium approximate on such a coverage? Can the same coverage be secured for sickness as well as accident?

J.C., New Orleans, La.

You can secure an accident policy with a 60-day waiting period, providing $250 per month, requiring an annual premium of $76.00. The 90-day waiting period would require a premium of $67.00. In addition, the Super Comprehensive Hospital Surgical Medical policy, as issued by the Continental Casualty Company, will provide reimbursement of all medical expenses, such as, hospital, physician and so forth; and can be purchased with limit up to $600.00.

In this plan, the (*Please turn to page* 718)

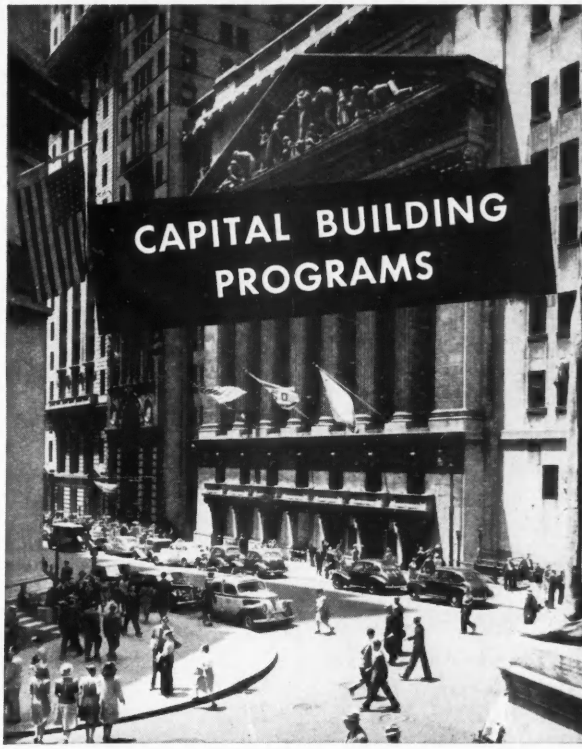
Special purpose accident policies are available to suit every need and every purpose!

Photo by Ewing Galloway

Capital Building

IN A PERIOD OF INFLATION

By JOHN DURAND



The New York Stock Exchange

IN THE PRECEDING NUMBER of the Magazine the suggestion was made that, generally speaking, the most rational equities which appear to offer a degree of protection as a hedge against inflation fall into four major groups. Of these the first involved the shares of gold mining companies, an industry which we will now discuss in more detail.

For thousands of years past gold has enjoyed world wide esteem because of its durability and relatively scant supply. Between international demand for the metal for monetary settlements and industrial uses, global production of gold has never been fully sufficient to satisfy all requirements. Hence as a symbol of wealth the yellow metal has attained a unique value, with its price rigidly controlled by Government authority. Since 1934, the price in the United States has not varied from a level of $35 per ounce, with the Treasury Department absorbing offerings from all over the world.

Demand for Gold Unabated

Despite the technical departure from the gold standard by most nations throughout the world, and with even the United States firm in its refusal to allow conversion of paper money into gold, the metal indirectly will form the basis for all international settlements. In line with the Bretton Woods agreements, the $8.8 billion stabilization fund will be partly backed by gold, and the $9.1 billion bank for stimulating international recovery and commerce also will be tied to operations substantially based upon the metal. As the American dollar and the British pound sterling will dominate the world as a basis for stabilizing the current monetary flux in which many foreign nations are presently struggling, and the United States now holds about 60% of the world's gold supply, the place of the metal in the international economy undoubtedly will continue its traditional supremacy. All said, miners with a reasonably assured stock of gold in the ground possess an above average stable asset during inflationary cycles. This advantage of course accrues in like manner to holders of shares in successful gold mining enterprises.

During war years, all gold mining in the United States was terminated by Federal edict, but once more now production is in full swing. Long established popularity of the better grade gold mining shares has been due not only to liberal disbursements in relation to earnings but to the inherent operating advantages of well established producers. Profits, to be sure, depend upon the cost-price relationship and the latter factor is in Government hands. But an immediate and unlimited market exists at all times, and due to the exceedingly high value of the product compared with its weight, operations can be conducted in remote regions.

As mining wages have risen substantially and chances of an upward trend in prices for gold appear slim, because of the inflationary pressure which would follow, profits of the gold miners will be subjected to a considerable squeeze for some time to come, especially among the high cost producers relying heavily upon extraction of the metal from ores. Placer mining requires much less dependence upon the labor factor. *Careful selectivity, therefore, is essential in acquiring the shares of gold mining companies,* but with competent advice it is possible to pick out a number of gold mining stocks which should provide satisfactory investment outlets under current inflationary conditions.

One favorable circumstance about gold mining is that if deflation should set in later, earnings of this industry usually expand in contrast to general declines in the case of other forms of enterprise. This is because costs tend to lower, and during depression periods the Government in the past has adopted a policy of raising the price of gold as an economic remedy.

Opportunities...

for Income and Price Appreciation

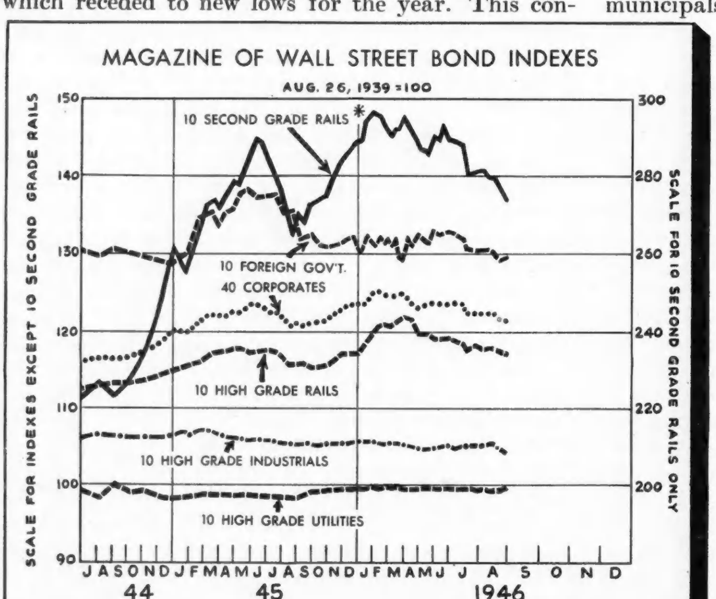
IN BONDS And PREFERRED STOCKS

By JACKSON D. NORWOOD

THE MAGAZINE OF WALL STREET's Index of Bond Prices showed the following changes for the period indicated:

	On Aug. 24	On Aug. 31	
10 Domestic Corporates	121.9	121.4	— .5
10 High Grade Rails	117.1	117.0	— .1
10 Second Grade Rails	276.7	273.6	—3.1
10 High Grade Utilities	99.2	98.7	— .5
10 High Grade Industrials	104.7	104.4	— .3
10 Foreign Governments	129.1	129.6	+ .5

Bond prices continued to ease in the period under review, with selling accelerated by the reaction in the stock list. However, the decline is most evident in second-grade issues, and particularly among lower quality and defaulted railroad obligations, which receded to new lows for the year. This continues the trend to which we called attention in recent issues, and is a situation for which little improvement, if any, can be envisioned at this time. Rather, the outlook still suggests the possibility of a further downtrend in this group, even though minor technical rallies may develop from time to time.



This is attributable primarily to the fundamental problems facing the railroads, which are ultimately reflected in a narrowing profit margin for the carriers. Operating costs have risen substantially, while gross operating revenues have been declining. Status of defaulted obligations of some of the lines undergoing reorganization seems uncertain from legal and technical standpoints, which has impaired market support for the time being.

Treasuries have held comparatively steady, with movements confined to narrow ranges, though municipals and top-quality corporates have been somewhat easier. Aside from the gradually changing money rate structure, about which we have said so much in the recent past, there is relatively little in the way of prime news likely to affect this market. About all that can be said is that investment-calibre bonds have about reached their peaks, but, on the other hand, no material price reduction is anticipated for some time.

In the foreign bond list, the action of the new Australian $20,000,000 issue of 3¼% is most significant, and may well influence the market for new foreign offerings. In the face of unsettlement in both stocks and bonds, the new Australian issue was very well received, meeting with strong retail demand, and quickly going to a small premium. Most other foreign issues, however, were easier in tone, with Canadians off slightly and South Americans being marked down.

GENERAL CABLE CORP. 4 per cent cumulative convertible second preferred stock (par $50). Convertible at any time into 3 shares of common stock through July 1, 1951, 2½ shares through July 1, 1956 and 2 shares thereafter, and redeemable on 30 days notice at $51.50 a share and dividends. While the company reported a net loss of $1,008,939 for the six months ended June 30, 1946, this was largely due to poor first quarter results when a net loss of $2,231,000 was shown due to strikes and difficulty in obtaining copper and other raw materials. In the June quarter of 1946 net profit was $1,222,000. Financial condition of the company is excellent, net working capital exceeding $23 million at close of 1945 with no funded debt outstanding. Outlook is promising, with prospects of at least a five year building boom and considerable expansion of power facilities planned. Company was recapitalized to eliminate arrearages on old preferred stock and new capitalization consists of 150,000 shares of 4 per cent first cumulative preferred (par $100) 150,000 shares of cumulative convertible 2nd preferred (par $50) and 1,898,614 shares of common stock. Convertible preferred stock is currently selling at $43 a share and the common stock at $10 a share.

Suggestions for Current Investment Funds

Bonds:	Recent Price	Call Price	Current Yield
Amer. & For. Pwr. Deb. 5's, 2030	$109	$107½	4.5%
Boston & Albany R.R. Term. Imp. 4¼'s, '78	101	105	4.2
Missouri, Kan. & Tex. Ry. 1st 4's, '90	93	N.C.	4.3
N. Pacific Ref. & Imp. 5's, C, 2047	107	105*	4.7
Pittsburgh & W. Va. 1st 4½'s, 1958-60	101	102	4.4
Southern Pacific Deb. 4½'s, 1981	106	110	4.2
Texas & Pacific Ry. Gen. & Ref. 3⅞, '85	105	105½	3.7
Preferred Stocks:			
Assoc. Dry Goods $7 2nd Pfd.	$137	N.C.	5.1%
Baldwin Locomotive $2.10 Pfd.	42	$40	5.0
Barker Bros. 4½% ($50 Par) Pfd.	54	55	4.2
Columbia Gas & Electric $6 Pfd.	110	110	5.4
Curtis Publishing $4 Prior Pfd.	70	75	5.7
General Cigar 7% Cum. Pfd.	179	N.C.	3.9
Goodyear Tire & Rub. $5 Cum. Cv. Pfd.	104	110**	4.8
Lipton (Thos.) 6% Cum. Pfd. (Par $25)	31	30	4.8
Pacific G. & E. 5½% Cum. 1st Pfd. (Par $25)	40	N.C.	3.4
Stokely-Van Camp $1 Prior Pfd.	21¾	21	4.5
Union Pacific 4% Non-Cum. Pfd.	113	N.C.	3.5
Virginian Rwy. 6% Cum. Pfd. (Par $25)	43	N.C.	3.5

N.C.—Not Callable. *Not prior to July 1, 1952.
**To 10/1/46; thereafter at 105.

CARRIER CORP. 4 per cent cumulative convertible preferred stock (par $50). Convertible into common stock at rate of 1.6 shares of common for each share of preferred. Redeemable for retirement fund on 45 days notice (on 30 days notice if redemption date is a dividend date) after January 15, 1956 at $50.50 a share and accrued dividends. Redeemable for other than retirement fund on 45 days notice (30 days notice if redemption date is a dividend date) in whole or in part at $53 a share through January 15, 1948, at $52 a share through January 15, 1956 and $51 a share thereafter. Issue is attractive from the standpoint of participation in one of the fastest growing new businesses of which this progressive and pioneer company should get a substantial share. In addition to the tremendous business to be generated by new construction, both plant and home, huge volume is anticipated from air conditioning of existing installations, including mines, railroad cars and industrial plants. Preferred stock is currently selling at $51 a share and common stock at $20.

HUDSON & MANHATTAN R. R. 1st lien & Refunding "A" 5s of 1957. Secured by mortgage upon its entire property subject only to prior lien of first mortgage 4½s of 1957 of which only $944,000 are outstanding. This company owns and operates a double tube tunnel system under the Hudson River between New York City, Hoboken and Jersey City, N. J., and provides rapid transit to terminals of Delawanna, Lackawanna & Western R. R. & Erie Railroad and connects with the Pennsylvania R. R. Property includes the two Hudson Terminal Buildings in downtown New York which provide fair rental income. Through service is provided to Newark, N. J., by joint operation with the Pennsylvania R. R. Company has never failed to adequately cover interest on these bonds, with the lowest coverage reported as 1.14 in 1938. Current yield at present price is about 7.1 per cent. Outstanding bonds have been considerably reduced since 1936, total in 1936, including first mortgage 4½s was $36,763,734 and was reduced to $30,146,705 at end of 1945, a reduction of $6,617,029. Adjustment income 5s of which $23,051,000 were outstanding at close of 1945 were reduced from $33,102,000 at close of 1936, a decrease of $10,501,000. Interest on the refunding 5s were covered 1.43 times in 1945.

AMERICAN TELEPHONE & TELEGRAPH CO. Directors of the company voted to recommend to stockholders a new issue of $351,000,000 of debentures convertible into common stock at not exceeding $150 a common share. In addition, stockholders will be asked to approve a new employees' stock purchase plan under which 2,800,000 common shares would be reserved, and 2,500,000 offered initially at not more than $150 a share. The recommendations include an increase in the authorized capital stock to 35,000,000 shares from 25,000,000. The special meeting for voting on these proposals to be held October 16.

Proceeds from sale of both debentures and stock would be used to provide funds for the vast expansion program of the company and its subsidiaries, and for general corporate purposes. Huge demands for telephone service, and need for extensions and additions to existing facilities have occasioned the largest construction program in the history of the Bell System. Estimates of financial requirements made more than a year ago indicated needs of approximately $1 billion, and together with recent sale of $125 million of debentures, would provide adequate funds for (*Please turn to page* 718)

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FOR

PROFIT

AND

INCOME

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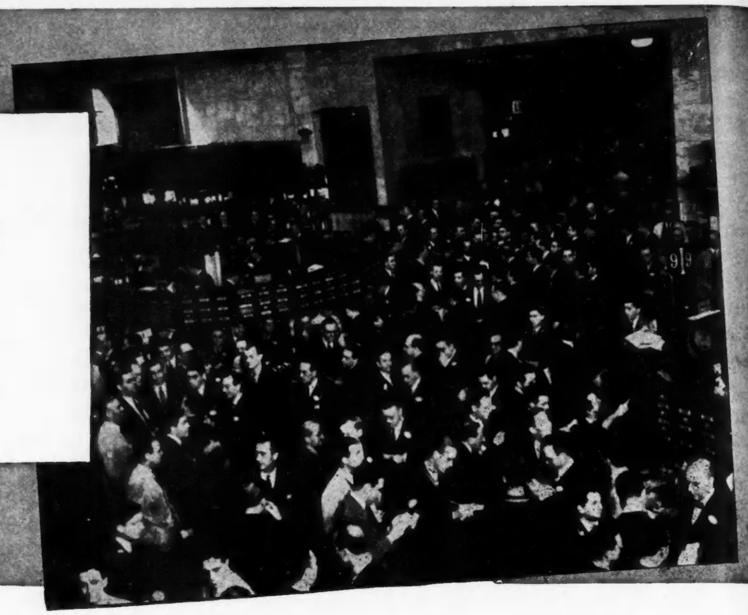


The Duration Question

Under Dow Theory, and most other mechanistic methods of trend interpretation of any standing, last week's decisive breaking of significant support levels had to be taken as establishing that a bear market started some time ago: specifically, from the May 29 and June 13 highs in the industrial and rail averages, respectively. Without attempting to discuss the reasons for it, since that is the responsibility of Mr. A. T. Miller's article in the forepart of the Magazine, this column will merely observe that it has not always proved wise for investors to sell on recognizable bear-market signals. Sometimes it has. Sometimes it has not. Particularly if based more on psychological than fundamental economic - financial changes, bear markets may be short and relatively mild. The most recent example was the one which ran from November, 1938, to April, 1939, or for about five months, taking the industrial average down by approximately 23% on the basis of closing prices. Those who acted on the sell signal and the next definite buy signal (in July, 1939) gained little. The present bear market is already somewhat comparable with that one in duration and scope. Whether it will be so when the full story is written, no one can say. But for what it may or may not be worth, all of the various reasons for apprehension which we have heard voiced to date appear to make a more plausible case for a minor bear market than for a major one.

Values Versus Prices

No doubt some stocks are still too high on reasonably-appraised values. Many are not, although they may go lower under the general pressure. You will be well-advised to scrutinize individual values among your holdings, but not to act in panic on a mere price basis. The market is exceedingly thin. At the pace of decline developed as this is written, good stocks can, and may, reach sound buying levels very fast. This column would rather hang on to good-grade equities, and keep an alert eye for attractive buys, than take a "sell-everything" attitude. Prices move greatly, but values pay off in the long run.

Locked In

A big decline in the market always converts a large number of speculators into involuntary investors. Whereas they bought in hope of profit—preferably over a holding period of not much over six months—they now say, "Oh, well; it gives me a little dividend return and I might as well hold on." For that matter, the selling side is never popular under any kind of market conditions. The experience of market advisory services is that roughly twice as many clients will normally act on buying advices than will act on selling advices. It is a good thing for the market that at any given time the great bulk of outstanding shares of stock is, in effect,

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Atlas Plywood	Year June 30	$2.80	$2.15
Borden Co.	6 mos. June 30	2.10	1.39
Crown Zellerbach	July 31 quar.	.87	.54
Decca Records	6 mos. June 30	2.49	1.16
Diamond Match	6 mos. June 30	1.07	.83
Eastern Airlines	6 mos. June 30	.77	.36
Fox (Peter) Brewing	Year June 30	1.33	.80
General Tire & Rubber	6 mos. May 31	5.19	1.77
Hart, Schaffner & Marx	6 mos. May 31	3.92	2.02
Hecht Co.	6 mos. July 31	1.93	.94

frozen by inertia or reasoned investment decision not to sell. Under modern thin-market conditions, if 5% of total share-holdings were suddenly offered for sale at the market, the immediate "bust" resulting therefrom would make all previous nose-dives look moderate by comparison.

Round-Trip

A good many people ride stocks up in bull markets and ride them down in bear markets. They get temporarily richer and temporarily poorer "on paper," with the turn of the cycle. That is not too bad, if dividend return is satisfactory. But often it is not. The majority of stocks are not well suited for permanent or semi-permanent investment. Those which are fall into two general classes and serve distinctly different investment objectives. In one class is the minority of stocks promising good long-term dividend results, without wide cyclical variations therein. The main thing is to get into them low enough in their historical price range so that you start off with an adequately good yield. In the second class, and suited to long-term capital building, is a still smaller minority of stocks: "growth" stocks. It is a fact that more fortunes have been made by sticking with growing enterprises over the years than by trying to "play the market" for swings, whether intermediate or cyclical. With too many people the primary trouble is that their whole approach to the stock market is pretty much hit-or-miss, without any clearly thought-out objective, consistently adhered to.

Capital Building

The odds against "getting rich quick" in the stock market, or any other way, have always been tremendous; and the relatively few exceptions merely prove the rule. However, it is not particularly difficult to pick a list of stocks in which there is a much better than even chance of good—and possibly rich — long-term reward through company growth. Since so many investors have a psychological leaning toward sitting tight with their holdings through thick and thin anyway, it would pay them to emphasize growth potentials in their selections. To guard against the very real risk of error in individual choices, funds so employed should be spread over a reasonable number of issues. Among stocks which appear to qualify as long-term growth situations, this department is partial to, and offers for your consideration, the following: Bond Stores, Monsanto Chemical, Phillips Petroleum, Minnesota Mining & Manufacturing, Hunt Foods, Minneapolis - Honeywell Regulator, Food Machinery, Kawneer, Sutherland Paper, Abbott Laboratories, Sterling Drug, and Union Carbide and Carbon.

Rail Rates

On the basis of action by the Interstate Commerce Commission to date, there does not seem to be much chance that further freight-rate relief will be granted before January. For the industry as a whole, this means poor 1946 earnings, although the lowest point in *monthly* earnings has already been put behind. The latter is due to the rate boost, averaging roughly 5%, recently granted, and to the rise in freight traffic now under way. The poor behavior of the rail average in recent months reflects not only bearishness on this year's earnings outlook but fear of possibly a similar squeeze next year: that is, further wage demands, application for higher rates, long drawn out I. C. C. procedures. On rails in general, this column cannot feel optimistic. However, toward no group of stocks is a selective attitude more warranted. It should be remembered that I. C. C. rate policy applies uniformly and must be aimed at keeping the great bulk of the industry solvent. The net effect is that the strong roads always get relatively most benefit from rate increases, although least in need of them. For example, even if there were no additional rate relief, 1946 earnings of such systems as Chesapeake & Ohio, Norfolk & Western, Virginian and Union Pacific would still be well above present good dividend rates. Very few industrials have dividend records equal to those of these railroads. While we can not say these four stocks have seen their lows, the current yields are good and the issues are suitable for portfolios emphasizing income return. For example, C. & O. (due for $3.50 in dividends this year) yields around 6.6% as this is written.

Speaking Of Dividends

We can not recall any stock-market period closely similar to that of the summer of 1946. The trend of the averages has been downward, the trend of dividends emphatically upward. Of course, that fact, in itself, proves nothing. The market could top out—as it has done more than once in the past—in advance of the peak in dividends. But that assumes that deflation in business, earnings and dividends is not far "around the corner." How can we be sure that is not the case now? Well, we can not be sure. Nothing about the stock market is sure. But we find it impossible to believe that the underlying bullish forces have spent themselves for good when there is no question of saturated markets,

(*Please turn to page* 723)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		Latest Period	Year Ago
Bendix Aviation	9 mos. June 30	def$.39	$4.90
Duquesne Lt. & Traction	12 mos. June 30	3.45	4.24
Fairchild Camera & Inst.	Year Dec. 31	1.38	3.32
General Mach'y	Year Dec. 31	5.37	7.49
Motor Wheel	12 mos. June 30	1.17	2.61
Sparks Withington	Year June 30	.22	.85
Stewart-Warner	6 mos. June 30	.32	.68
Thermoid	6 mos. June 30	.23	.74
Transamerica	6 mos. June 30	.70	1.17
United Aircraft	6 mos. June 30	.92	2.37

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Is 100% Equity Position Advisable Now?

I have all my capital invested in common stocks at present. In some of them I have substantial profits, while others, mainly recent purchases, show small losses. Is it wise to be fully invested in common stocks now?

H.V., San Antonio, Texas

As the market is comparatively close to the highest level in several years, it is not prudent or sound to maintain a fully invested position in common stocks at this time. Dividend yields average only 3½%. Investors should take advantage of strong markets to weed out highly speculative issues and retain only sound, dividend paying equities with definite favorable long term prospects. A gradual reduction of common stock holdings and building up of cash reserves is advisable, in line with a more conservative investment program.

Short Positions

I haven't found very much in your magazine on Short Interest Figures. Looking through my back issues I found in your "Answers to Inquiries" of July 7, 1945, a very interesting write-up. I am sure that many other subscribers would like more information on this subject. A list of recent short sales would be interesting.

RAC, Havana, Cuba

Short interest in securities listed on the New York Stock Exchange declined 117,049 shares during the month ended August 15, according to reports to the Exchange from its members and member firms.

Short positions on August 15 totalled 732,649 shares, compared with 849,698 shares on July 15, These figures exclude short positions in odd-lot accounts of all oddlot dealers. On August 15 the odd-lot short interest was 36,281 shares against 50,881 shares a month earlier.

Short positions were reported in 649 of the 1,308 individual stock issues listed on the Exchange on August 15. A month before there were short positions in 658 issues.

The following issues had a short interest of 5,000 or more shares or showed a change of 2,000 or more shares during the month:

	Short Interest 8/15/46
Alleghany Corp.	5,300
Amalgamated Leather Cos. Inc.	5,865
American Airlines, Inc.	9,800
American & Foreign Power Co., Inc.	21,225
American Tobacco Co., Class B	5,700
American Viscose Corp.	5,926
American Woolen Co.	10,225
Armour & Co.	4,800
Austin, Nichols & Co., Inc.	200
Aviation Corp.	20,537
Baltimore & Ohio R. R. Co.	22,768
Burlington Mills Corp.	6,125
Commonwealth & Southern Corp.	3,550
Curtiss-Wright Corp., Class A	5,340
Distillers Corp.-Seagrams Ltd.	6,350
Equitable Office Building Corp.	27,975
Eversharp, Inc.	7,750
Food Fair Stores, Inc.	3,110
General Electric Co.	1,480
General Motors Corp.	20,247
Graham-Paige Motors Corp.	13,690
Hudson & Manhattan R.R. Co.	1,725
Illinois Central R.R. Co.	12,600
International Paper Co.	10,592
Int'l Tel. & Tel. Corp., Dom. Shs.	13,390
Kansas City Southern Ry. Co.	6,480
Mengel Co.	350
Missouri-Kansas-Texas R.R. Co.	17,275
Montgomery Ward & Co., Inc.	2,293
National Distillers Prod. Corp.	3,921
New York Central R.R. Co.	10,410
Packard Motor Car Co.	3,615
Panhandle Prod. & Ref. Co.	15,500
Paramount Pictures Inc.	6,087
Pepsi-Cola Co.	16,461
Radio Corp. of America	5,970
Schenley Distillers Corp.	6,793
Sears, Roebuck & Co.	5,399
Southern Pacific Co.	7,347
Spiegel, Inc.	2,035
Sunshine Biscuits, Inc.	440
United Gas Improvement Co.	200
U. S. Rubber Co.	6,442
U. S. Steel Corp.	12,135
Warner Bros. Pictures, Inc.	9,315
Willys-Overland Motors, Inc.	7,365

Consolidated Edison Co.

I have accumulated 500 shares of Consolidated Edison of New York for investment purposes at several dollars a share higher than it is now. As you know, in spite of a good earning statement, the stock seemed to be tending downward even in a general upward market and now their refinancing and revaluating of the stock is announced. As a subscriber to your magazie, will you kindly inform me what this is all about and whether the stock is being hurt by this action and should be sold? I already have over $1000 loss in a few months and am getting anxious about the advisability of holding the stock.

Dr. G. B., Chicago, Illinois

The bookkeeping adjustment for which Consolidated Edison Co. of New York is providing in its contemplated 162.5 million dollar write-down of common stock to be voted on by stockholders October 8th is not as serious as the market action of the common stock that followed would indicate. Of the total 238.8 million dollar adjustment provided, approximately 187 million represents excess of construction costs over "reasonable" costs and "indicated" shortages in the property depreciation reserve of the company and its subsidiaries, determined by the New York Public Service Commission Consulting Engineer based merely on tentative appraisals. It is anyone's

(*Please turn to page* 728)

Keeping Abreast of Industrial and Company News

Despite uncertainties ahead as mirrored by the sharp drop in share prices of late, reports on the optimistic side continue to disclose confidence on the part of numerous company heads.

First half of 1946 earnings for Borden Co., says president Theodore G. Montague, equalled $2.10 per share compared with $1.39 in the corresponding period of 1945. And although sharply increased costs cut into profit margins, reduced taxes figured less than might have been expected in the picture.

Steady progress by McKesson & Robbins, Inc., according to William J. Murray, president, has boosted net profits after all charges to about $8.5 million against $4.7 million for twelve months ended in June. Hence a rise in the quarterly dividend from 45 cents per share to 60 cents was well justified.

Nathan Cummings, president of Consolidated Grocers Corporation informs his stockholders that at the end of its fiscal year on June 30 this largest factor in its field showed record breaking sales and the largest accumulation of working capital in its history. And the volume trend is still upward.

Melville Shoe Corporation during the first half of 1946 experienced a sales gain of more than 60%, reports president Ward Melville. Due to good cost controls net earnings were more than twice those for the relative period last year. Returning veterans have bought the company's products on a liberal scale.

Lack of fluctuation in raw material prices has benefitted all segments of the rayon industry, in the opinion of Charles L. Gurley, president of National Mallison Fabrics Corporation. Income per share of this concern during its first full year of public ownership came to $1.98, with net sales of $11.3 million.

No near term let up in demand for tires is in sight, according to predictions by P. W. Litchfield, chairman of Goodyear Tire & Rubber Co. 1947 tire consumption probably will run to as many as 83 million, only 3.5 million less than the 1946 level when replacements have been abnormal.

If mounting backlog orders mean anything, American Car & Foundry Co. will be kept busy for a long time to come. Unfilled orders of this concern have risen by $31 million since last May, for a total of $155 million currently. Unfortunately, one big reason for the seeming improvement is low production due to shortage of materials.

Lack of scrap continues to seriously bother producers of steel, as well as their numerous customers. For the first time in 23 years the open hearth furnaces of Sheffield Steel Corporation in Kansas City have been shut down because of scrap shortage. Less than 14 days supply of scrap is reported to be on hand for the steel industry.

The automobile industry ends its first year of reconversion after VJ Day with a dismal record of having achieved only 35% of its former conservative expectations. During the first quarter alone, $50 million in losses had to be met, after allowance for tax credits and other offsetting alleviatives. And progress in crawling out of the hole is woefully slow.

Volume of the machine tool industry in 1946 will fall a good deal short of early official estimates, as August orders declined nearly 30% compared with the previous month. Largely accounting for the dip may be the all-out effort of the Government to sell its huge stock of machine tools.

Carthage Hydrocol, Inc. is the interesting name of a new $19 million concern formed to produce gasoline from natural gas, operations to be centered in Texas. Included among the sponsors are Stone & Webster, the Texas Co., Niagara Share Corporation and United Gas Corporation.

Another Government built war facility has been sold to private interests. Chase Brass & Copper Co., according to reports, are paying about $5 million for some 100 acres and a modern plant which they operated for Washington during the war. After changes in equipment, commercial output will follow as rapidly as possible.

Without change of name, J. P. Stevens & Co. Inc., have merged with nine textile mill concerns, mainly in the South, to form a sizable enterprise with a capitalization of $75 million. Stevens will serve as the selling unit for the group.

In a recent article in the Atlantic Monthly, Governor Arnall of Georgia predicts that in the not too distant future, practically all production of textiles will be transferred to Southern States. In this category he goes so far as to include the woolen industry, but Northern mill operators are not likely to echo his views.

Through one of the largest expansion programs in the field of plastics, Monsanto Chemical Co. will soon become a major producer of styrene. Early in 1947 the production rate should soar to 80 million pounds annually, adding some $20 million to Monsanto's volume, and producing material equal to nearly 200 million pounds of aluminum in bulk.

Over-all production of farm machinery in 1946 may top $660 million, despite all the strikes and material shortages. Tractor production by International Harvester Corporation last month was said to have reached record proportions, with prospects of a further rise. Output of motor trucks by this concern has also been satisfactory, although all divisions have suffered from recent handicaps.

With the consent of the Interstate Commerce Commission, an important merger of two car loading concerns, each dominant in different sections of the country, has become effective. The companies involved are the Wells-Fargo Carloading Co. and General Carloading Co. Inc.

The Army has named nine commercial concerns who will take over 15 munitions plants for the production of ammonia nitrate fertilizer. The idea has two-fold significance in providing a larger supply for export to hungry nations abroad and to release greater amounts to American farmers.

Commercial adaption of the war created bazooka has been established. The National Tunnel and Mines Co. of Utah has successfully demonstrated that ordinary blasting explosives discharged from a concave receptacle against a hard rock wall saves drilling costs and is highly efficient.

The BUSINESS ANALYST

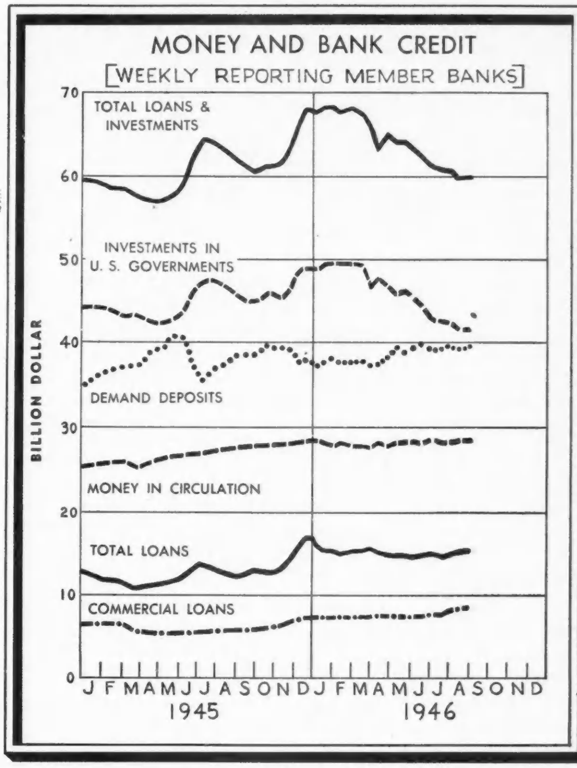
SUMMARY

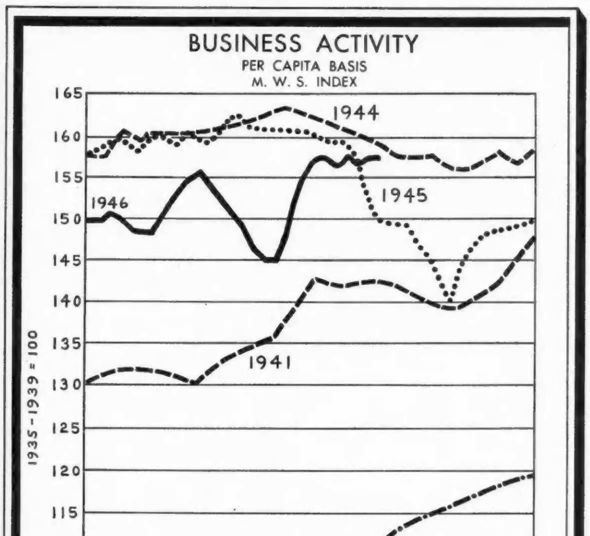
MONEY AND CREDIT—Commercial loans up 100% since Aug. 1939; but meanwhile national gross product has expanded 123%. Savings by individual and unincorporated business concerns, though only $5.6 billion in the first quarter against $10.5 billion a year earlier, were still much larger than in previous years of prosperity.

TRADE—Department store sales in fortnight ended Aug. 24 were 66% above like period last year when many stores were closed for two days in celebration of our victory over Japan. Retail store sales are up 130% since Aug., 1939; but retail inventories are only 40% larger.

INDUSTRY—Business activity in August was 4% above last year. Though rise since Aug., 1939, has been 48%, manufacturers' inventories at the end of July were up only 10% on a quantity basis.

COMMODITIES—Spot commodity price indexes were mildly reactionary during the past fortnight; but futures were firm. Resumed futures trading in wheat on the Chicago board of trade was followed by slightly lower prices than when trading was suspended. Cotton continues to rise on predictions of a short crop, heavy demand, and low Government-held reserves. Secretary Anderson orders boost of 12.5% in cattle ceilings and 9.4% for hogs. 1946 tobacco crop estimated at 10% above last year and 25% above 1940-44 average.





Owing to box car shortage and Great Lakes maritime strike, **Business Activity** was off fractionally in the fortnight ended Aug. 31; but showed an increase of more than 5% over the last week of Aug., 1945. This publication's business index in August rose to 171.4% of the 1935-9 average, compared with 170.8 for July and 164.6 in August last year. On a per capita basis, our index for August was 156.8% of the 1935-9 average, compared with 156.7 in July and 155.3 for August, 1945.

* * *

Steel producers have **Scrap Inventories** on hand sufficient to last only 14 days, against a normal supply of 30 to 60 days. This is the industry's average; though some concerns have enough steel scrap to last 60 days, while others are down to a two-days' supply.

* * *

The O. D. T. declares that the present and prospective **Freight Car Shortage** is the most serious since 1922. The shortage rose from 11,663 cars for the week ended July 20 to 20,615 for the week ended Aug. 3. The O. D. T. fears that the shortage may reach 75,000 cars before the Autumn harvests are in. The 1922 record shortage was 178,000. Since there is neither time nor materials to complete enough new cars to relieve this year's pinch, it has become necessary to resort again to priorities on allotments.

* * *

Owing to postponement of rail freight rate hearings by the I. C. C., it is thought in some quarters that the

(Please turn to following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (ff) $b	Aug. 28	0.30	0.39	1.59	0.43
Cumulative from Mid-1940	Aug. 28	341.8	341.5	303.9	14.3
FEDERAL GROSS DEBT—$b	Aug. 28	267.5	267.4	262.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Aug. 28	39.3	39.2	38.1	24.3
Currency in Circulation	Aug. 28	28.4	28.4	27.6	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Aug. 28	7.00	7.09	6.94	3.92
100 Other Cities—$b	Aug. 28	8.45	8.45	8.02	5.57
INCOME PAYMENTS—$b (cd)	June	14.41	12.77	14.40	8.11
Salaries & Wages (cd)	June	8.70	8.63	9.57	5.56
Interest & Dividends (cd)	June	2.26	0.56	1.85	0.55
Farm Marketing Income (ag)	June	1.49	1.55	1.53	1.21
Includ'g Govt. Payments (ag)	June	1.55	1.66	1.55	1.28
CIVILIAN EMPLOYMENT (cb) m	July	58.1	56.7	55.2	52.6
Agricultural Employment (cb)	July	9.9	10.0	9.8	8.9
Employees, Manufacturing (lb)	June	12.8	12.7	14.5	13.8
Employees, Government (lb)	June	5.5	5.5	6.0	4.6
UNEMPLOYMENT (cb) m	July	2.3	2.6	1.0	3.4
FACTORY EMPLOYMENT (lb4)	June	138	137	157	147
Durable Goods	June	156	155	204	175
Non-Durable Goods	June	124	123	119	123
FACTORY PAYROLLS (lb)4	June	257	248	315	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	May	39.7	40.5	44.1	40.3
Hourly Wage (cents)	May	107.1	105.8	104.2	78.1
Weekly Wage ($)	May	42.46	42.87	46.02	31.79
PRICES—Wholesale (lb2)	Aug. 10	127.1	125.0	105.7	92.2
Retail (cdlb)	June	147.7	145.7	142.1	116.2
COST OF LIVING (lb3)	June	133.3	131.7	129.0	110.2
Food	June	145.6	142.6	141.1	113.1
Clothing	June	157.2	155.7	145.4	113.8
Rent	June	108.5	108.4	108.3	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	June	7.70	7.93	6.30	4.72
Durable Goods	June	1.54	1.61	0.96	1.14
Non-Durable Goods	June	6.16	6.32	5.34	3.58
Dep't Store Sales (mrb)	June	0.70	0.70	0.43	0.40
Retail Sales Credit, End Mo. (rb2)	June	3.37	3.18	2.26	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	June	210	208	195	181
Durable Goods	June	230	224	182	221
Non-Durable Goods	June	198	199	202	157
Shipments (cd2)—Total	June	209	207	268	184
Durable Goods	June	213	207	356	223
Non-Durable Goods	June	205	208	207	158
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	June	28.6	28.4	26.5	26.7
Manufacturers'	June	17.1	16.9	16.2	15.2
Wholesalers'	June	4.5	4.5	3.8	4.6
Retailers'	June	7.0	7.0	6.5	7.2
Dept. Store Stocks (mrb)	June	1.6	1.6	1.4	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 713)

additional rate increase may not become effective until next January.

* * *

Department Store Sales in the fortnight ended Aug. 24 showed a phenomenal increase of 66% over the corresponding period last year when a number of stores were closed for two days in celebration of our victory over Japan. Cumulative sales for the year to date were thereby raised to 30%.

* * *

Current pessimism in financial circles, as reflected by recent declines in the securities markets, is certainly not in tune with the present business outlook. Should a second round of **Major Strikes** be staged this Winter, as now seems possible, there would merely be repetition of the temporary dips that accompanied earlier post V-J Day strikes. The result would be to further postpone full production of durable goods; but strikes can never cause a major business depression.

* * *

On the contrary, strikes which win wage increases serve to widen the gap between demand and supply. This promotes **Inflation,** which eventually must end in deflation; but the inevitable major depression will not set in until after supply catches up with demand. Strikes postpone the day of reckoning; but add to the bill that must be paid ultimately.

* * *

There probably never was a major business depression that was not precipitated by overproduction and consequent dumping of **Inventories.** Inventories rose sharply during the war. They have continued to rise since V-J Day and so have bank loans to help carry them; but both still have some distance to go before becoming dangerously topheavy. From Aug., 1939, to the end of July, 1946, manufacturers' inventories expanded 82% in dollar value; but only 10% on a quantity basis after allowing for the 66% rise in wholesale prices. Meanwhile business activity has expanded by 48%.

* * *

Retail store inventories are only 40% above Aug., 1939; despite the phenomenal increase of 130% in retail sales. The banks' **Commercial Loans,** though largest on record, are only 100% above Aug., 1939, compared with expansion of 123% in the National Gross Product.

* * *

Individuals and unincorporated business concerns saved only $5.6 billion in the first quarter of 1946, compared with $10.5 billion in the like period last year. Comparing June 30 this year with the like date last year, the number of savings bank accounts in New York State declined 5% and total **Savings** deposits 14%.

* * *

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Aug. 24	157.3	157.3	153.0	141.8
(M. W. S.)—I—np	Aug. 24	171.7	171.6	165.8	146.5
INDUSTRIAL PROD. (rb)—I—np	July	174	171	210	174
Mining	July	146	140	143	133
Durable Goods, Mfr.	July	202	194	292	215
Non-Durable Goods, Mfr.	July	160	161	165	141
CARLOADINGS—t—Total	Aug. 24	885	888	853	833
Manufactures & Miscellaneous	Aug. 24	388	382	355	379
Mdse. L. C. L.	Aug. 24	121	120	106	156
Grain	Aug. 24	46	50	67	43
ELEC. POWER Output (Kw.H.) m	Aug. 24	4,444	4,422	4,116	3,267
SOFT COAL, Prod. (st) m	Aug. 24	12.2	12.1	12.2	10.8
Cumulative from Jan. 1	Aug. 24	328	316	382	446
Stocks, End Mo.	June	37.8	31.6	47.7	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Aug. 24	4.8	4.8	4.9	4.1
Gasoline Stocks	Aug. 24	86	87	85	88
Fuel Oil Stocks	Aug. 24	52	52	47	94
Heating Oil Stocks	Aug. 24	51	49	40	55
LUMBER, Prod. (bd. ft.) m	Aug. 24	470	482	420	632
Stocks, End. Mo. (bd. ft.) b	June	3.6	3.5	3.6	12.6
STEEL INGOT PROD. (st.) m	July	6.60	5.62	6.99	6.96
Cumulative from Jan. 1	July	33.9	27.3	50.1	74.7
ENGINEERING CONSTRUCTION AWARDS (en) $m	Aug. 29	80	97	35	94
Cumulative from Jan. 1	Aug. 29	3,710	3,630	1,262	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Aug. 24	146	158	132	165
U. S. Newsprint Consumption (st)t	July	342	365	250	373
Do., Stocks, End Month	July	377	347	458	523
Cigars, Domestic Sales—m	June	26.4	30.0	24.3	17.1
Footwear Production (Pairs)m	June	49.3	49.4	44.1	34.8
Hosiery Production (pairs)m	June	155	168	135	150

PRESENT POSITION AND OUTLOOK

There is nothing alarming about this decline in savings. They are still much larger than in previous years of prosperity. The main cause is a sharp drop in Government deficit spending, with resulting decline in rate of expansion of the **Money Supply.** Of the $4.9 billion drop in savings between the first quarters of 1945 and 1946, $3.5 billion was accounted for by the slower rise in holdings of bank deposits and currency.

* * *

There is a general economic law that aggregate savings by business concerns and individuals during any given period of time must exactly equal the total **Deficit Spending** of Federal, State and local governments. This is explained by the obvious fact that what one group pays out the other group receives. During the six-year period from 1940 to 1945, for example, Federal, State and local governments spent $201 billion more than they collected in taxes. Consequently, $201 billion had to be saved by business concerns and individuals.

* * *

How these savings will be divided between business concerns and individuals depends upon how much is spent by business concerns upon plant and equipment. The greater are such **Capital Expenditures** the greater will be aggregate savings by individuals.

ag—Agriculture Dep't. b—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't. Avge. Month 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonably adjusted Index. 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Streeet, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Cl.—100)	1946 Indexes High.	Low	Aug. 24	Aug. 31
300 COMBINED AVERAGE	191.7	159.1	168.3	159.1a
4 Agricultural Implements	265.7	204.9	220.6	206.8
11 Aircraft (1927 Cl—100)	284.4	216.0	226.9	216.0a
6 Air Lines (1934 Cl.—100)	1208.6	922.5	979.1	922.5
5 Amusement	218.6	143.7	187.1	177.5
15 Automobile Accessories	336.2	240.7	257.8	240.7a
11 Automobiles	62.2	45.8	48.7	45.8a
3 Baking (1926 Cl.—100)	26.0	21.1	23.8	23.0
3 Business Machines	360.3	286.1	321.1	295.9
2 Bus Lines (1926 Cl.—100)	229.9	176.3	207.0	200.9
4 Chemicals	290.2	238.3	264.8	248.2
2 Coal Mining	32.4	23.8	23.8a	24.0
4 Communication	99.7	70.1	72.3	70.1b
13 Construction	85.1	67.5	72.3	67.5a
7 Containers	462.6	375.8	396.1	375.8a
8 Copper & Brass	141.8	108.7	116.8	112.4
2 Dairy Products	81.5	64.6	74.4	70.3
5 Department Stores	132.9	89.7	104.7	101.2
5 Drugs & Toilet Articles	277.4	194.8	245.6	230.4
2 Finance Companies	313.9	255.4	273.1	255.4a
7 Food Brands	236.4	205.5	219.2	210.4
2 Food Stores	100.3	73.8	85.6	82.7
3 Furniture	125.8	98.9	104.9	98.9a
3 Gold Mining	1346.1	899.5	924.3	899.5b

(Nov. 14, 1936, Cl.—100)	High.	Low	Aug. 24	Aug. 31
100 HIGH PRICED STOCKS	112.55	97.15	102.74	97.15a
100 LOW PRICED STOCKS	247.97	194.87	206.39	194.87a
6 Investment Trust	84.1	67.3	72.4	67.3a
3 Liquor (1927 Cl.—100)	1479.8	1000.2	1380.4	1264.1
8 Machinery	206.4	168.5	179.8	168.5a
3 Mail Order	206.3	140.3	157.7	151.3
3 Meat Packing	132.7	109.8	116.5	109.8a
13 Metals, non-Ferrous	299.7	205.6	220.7	205.6a
3 Paper	44.0	32.7	41.4	39.8
23 Petroleum	227.0	175.1	210.1	198.2
20 Public Utilities	165.5	131.2	144.7	136.3
5 Radio (1927 Cl.—100)	42.0	26.3	28.7	26.3a
8 Railroad Equipment	110.6	86.3	91.3	86.3a
22 Railroads	40.8	29.6	32.2	29.6a
3 Realty	56.7	34.2	35.9	34.2a
2 Shipbuilding	178.8	122.5	147.2	141.0
3 Soft Drinks	647.0	540.6	555.4	540.6a
12 Steel & Iron	149.3	119.1	139.9	133.0
3 Sugar	88.9	74.7	78.6	75.0
2 Sulphur	295.3	241.7	264.4	258.5
3 Textiles	189.7	126.7	162.4	155.1
3 Tires & Rubber	51.9	42.5	47.5	44.3
5 Tobacco	99.6	86.8	92.4	88.2
2 Variety Stores	399.3	318.5	349.7	329.6
18 Unclass. (1945Cl.—100)	116.1	98.2	105.5	101.6

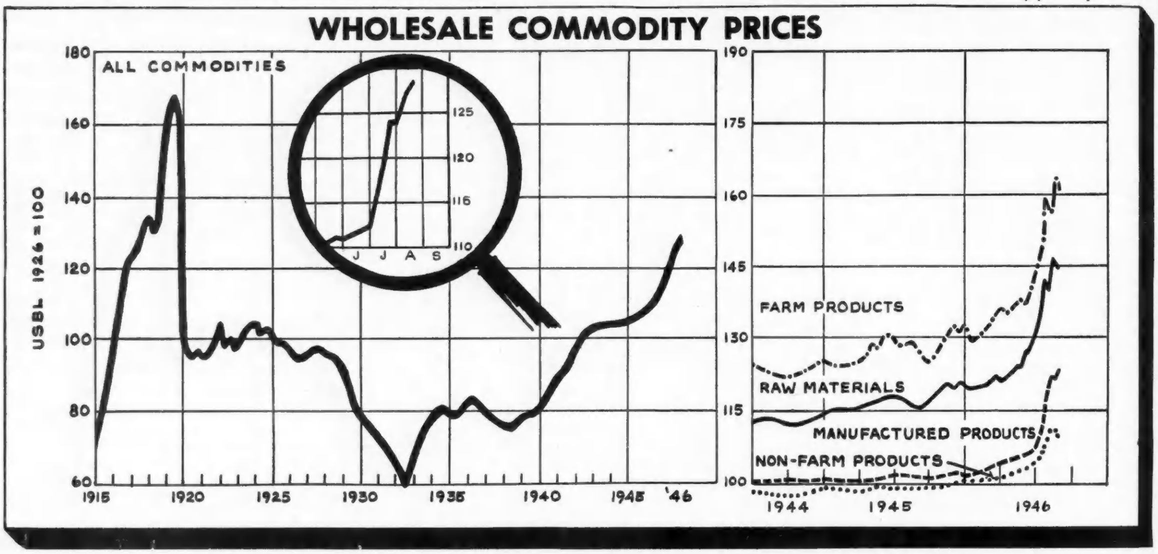
LOWEST since: a—1945; b—1944.

Trend of Commodities

For the past two weeks commodity futures have remained in a very narrow range, about halfway between the high reached in the middle of July and the low point reached at the end of that month. The sharp decline in security prices had no effect on commodities. Trading in wheat futures was resumed at Chicago and prices were a little lower. Feed grains, on the other hand, held firm as the rise in parity meant a loan value on corn of $1.28 to $1.30 at Chicago. The increase in ceilings on hogs and cattle, above those prevailing on June 30, was also favorable for feed grains. Cotton futures were firm throughout the period. Cloth ceiling prices were increased 2½ per cent and mills priced some cotton against the sale of goods.

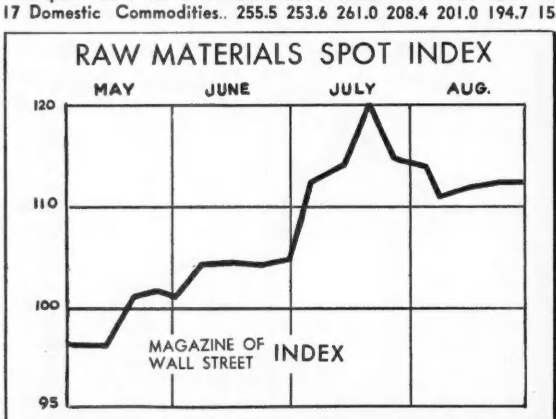
What has happened to spot commodity prices since the start of the war? The Bureau of Labor Statistics has a daily index using the month August 1939 as a base at 100. The price of the 28 items used in this index has increased from 100 to 242. Domestic agricultural prices are up to 318, while raw materials are 204. Agricultural commodities have already passed the peak in 1920. This sharp increase cannot be maintained. Heavy relief shipments make for a tight situation at home. We look for strength for the balance of 1946, but 1947 will be a year of declining prices for farm products.

The President is making a very strong effort to bring the budget in balance. Building projects are being delayed or cut back sharply. The number of employees on the Federal payroll is actually being reduced. A favorable factor in the fight against inflation is the Civilian Production Administration's report that current production is near capacity levels. This means a greater supply of consumers' goods at retail in the fourth quarter of the year. Working against any sharp reduction in prices is the steady advance in parity. This forces the Government to increase ceiling prices on farm products and to raise the support prices.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equal 100

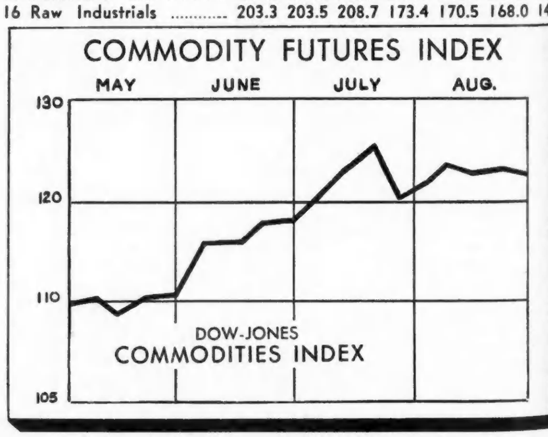
	Date Aug. 31	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	241.0	240.4	248.6	193.2	188.5	184.1	156.9
11 Import Commodities	220.8	221.3	230.7	171.9	170.7	168.9	157.5
17 Domestic Commodities	255.5	253.6	261.0	208.4	201.0	194.7	156.6
7 Domestic Agricultural	304.1	307.6	310.5	252.2	236.3	224.2	163.9
12 Foodstuffs	299.3	299.5	313.5	222.9	215.2	207.7	169.2
16 Raw Industrials	203.3	203.5	208.7	173.4	170.5	168.0	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6. 1941—85.0

		1945	1944	1943	1941	1939	1938	1937
High	120.2	95.8	94.5	92.9	85.7	78.3	65.8	93.8
Low	95.5	93.6	91.8	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1946	1945	1944	1943	1941	1939	1938	1937
High	125.39	106.41	98.13	96.57	84.60	64.67	54.95	82.44
Low	104.21	93.90	92.44	88.45	55.45	46.59	45.03	52.03

COMMODITY HIGHLIGHTS

PEPPER . . . The commodity in the tightest supply situation at the moment is pepper. For a long time the ceiling on pepper was 15c per pound and imports were only nominal. When the ceilings were removed, black pepper sold at 60c and white pepper at 65c in the New York wholesale market. Importers are willing to pay 45c a pound for black pepper, but there is very little available. Current supplies are being taken from the "free zones" in the United States where it has been held by importers pending the removal of ceilings.

There are no ceilings, but the trade is still hampered in its operations. Import permits are required to bring in supplies from Singapore and Lampong. The Government recently purchased 4 million pounds of black pepper from India and there are reports that we are trying to buy twice this amount. An initial shipment is already on its way. The trade has not received permission to import from India. Grinders in this country are only allowed to have stocks equal to 25% of the supplies they owned in the corresponding period of 1941. It will be many years before we have a surplus of pepper.

COPRA . . . The United States will receive the entire exportable surplus of copra and coconut oil from the Philippines for one year starting July 1, 1946. The Philippine Government agreed to sell to the CCC at $103.50 per long ton, f.o.b. ocean carrier. The coconut oil will be sold at 7⅛c per pound f.o.b. Philippine ports. They have agreed not to place any restrictions upon the production or export of copra to the United States. We have been helping the Philippine copra industry to recover from the war. We furnished small inter-island boats to collect the copra and supplied them with foodstuffs and textiles to encourage collections. Shipments should be back to prewar levels before many months have passed.

In order to obtain this agreement the CCC had to pay a higher price. As a result, ceiling prices in this country were raised from $109.50 to $110.25 per short ton at Pacific Coast ports. Coconut oil prices were raised from 8c to 8.06c a pound, c.i.f. Pacific ports.

At the same time the United States has advanced 15 million dollars to the Dutch Government. This money will be used to buy trade goods and supplies in the United States and will be paid for later in the form of copra. The Netherlands East Indies will sell the entire surplus to the CCC. The price will be the same as that established in the Philippine agreement. Estimates call for 300,000 tons of copra in the next twelve months.

Copra is the dried meat of the coconut. Copra yields 2/3 of its weight in oil and 1/3 in meal or cake. The meal is very rich in protein and is used extensively as a food for animals. Protein feeds have been in very short supply since the war. Coconut oil has many uses. Large quantities are used in soap-making. It is used in oleomargarine as a substitute for butter. In the industrial field it is used by manufacturers of tires, plastics, textiles, and cosmetics. If imports live up to current expectations they will aid materially in relieving the world shortage of fats and oils.

WHEAT . . . Trading in wheat futures was resumed on the Chicago Board of Trade, but the volume of transactions was small. Some commission houses refused to accept orders for the present. They are afraid that a sharp rise in price might result in the re-imposition of ceilings at lower prices. Prices were strong at the opening, advancing several cents a bushel above the old ceiling. Later in the week the market broke rather sharply on a small amount of hedge selling. The distant contracts sold at discounts of 8c a bushel under the near months. This is due to a shortage of box cars, which will prevent any heavy grain movement in the next few months.

The wheat crop this year is the largest on record and under normal conditions we would expect to have prices move sharply lower. Conditions have not yet returned to normal and with the Government in the market for 250 million bushels of wheat at full ceiling prices there will be no decline. The parity price of wheat increased 4c a bushel in August and on this basis many in the trade feel that the CCC will increase its purchase price.

The order calling for a high extraction rate on flour has been dropped. As of September 1 mills have been turning out a high grade flour. This means a return of fine white bread within the next 45 days. This order is important to the feed industry, for it means a large increase in the supply of mill feeds which have been in short supply for several years.

Individual Achievement

(*Continued from page* 703

completing assembly of the world's largest airplane, the flying boat designed and built by Hughes for the government.

A seemingly tireless worker, Mr. Hughes frequently works "around the clock," often phones his executive aides between midnight and dawn. He believes in finishing anything he starts, regardless of cost. He will have put $5,000,000 of his own money into the giant flying boat when it is completed.

Today his interests include 44 per cent of Trans-Continental & Western Airlines common stock, the Hughes Tool Company with its motion picture and aircraft divisions, and the largest brewery in Texas. His present wealth is estimated at between 175 and 200 millions of dollars.

Answers to Insurance Inquiries

(*Continued from page* 704)

Hospital Benefits would be payable at the rate of $6.00 per day, and benefits of operating room and laboratory fees totaling $35.00; Surgical Benefits up to $150.00 and Doctor's Fees up to $3.00 daily. This would cost $26.35 annually to be in addition to the $76.00 or $67.00 premium originally explained. In this way, you would have a coverage providing monthly income and reimbursement of all medical expenses, whether by accident or disease.

Temporary Annuities

Sir:

In the Insurance Department of the July 20th issue, you mention a large Insurance Company which will issue Temporary Annuities for 15 years, paying a substantially larger income than is obtainable on a straight life annuity basis. This may solve one of my investment problems for an annuity for $13,000 at age 64.

E.J., St. Louis, Mo.

In regard to your inquiry, you did not state the sex of the individual for wrom the contract was to be effective, hence I am quoting both. Based on Male, age 64, for $13,000 Single Premium, the 15-Year Temporary Annuity will produce $99.58 monthly; for the same contract on Female Age 64, the income would be $92.56 monthly.

Opportunities for Income and Price Appreciation in Bonds and Preferred Stocks

(*Continued from page* 707)

the program. The new debenture issue is to bear interest at a rate of not more than 2 per cent and is to mature not later than December 15, 1961. The rights to convert the debentures into stock at not more than $150 a share would start not later than four months after the December 15, date for the debentures and would continue until about three years before the maturity date.

In connection with the proposed increase of authorized stock by 10,000,000 shares, the company notes that it now has 20,389,018 shares issued and 633,625 reserved for possible conversions of 3 per cent debentures now outstanding, due 1956. The increase to 35,000,000 shares would provide for issuance under the employees' purchase plan and for further equity financing as the need may arise. Under employees' purchase plan, provision would be made for sale to all regular employees of parent company and most subsidiaries meeting certain requirements as to length of service. Officers of the parent company would not be eligible to participate and participation would be limited to 50 shares per employee, payment to be made on installment basis in cash or through payroll allotments. The installment accounts would be credited with 2 per cent interest. Price of the stock to employees would be $150 a share as long as the average market level is $170 or more. It would be reduced, in general, to $20 a share under the market if the price should drop below $170. In no event would the price be less than $100 a share. The conversion privilege on the $351,000,000 of new debentures would result in the raising of $175,000,000 of additional capital if all debentures were converted at the $150 price for the stock, and employee subscriptions would provide minimum of $375,000,000 on the initial offering, assuming all stock to be sold at $150 a share and based on 2,500,000 shares. If the maximum of 2,800,000 shares authorized for sale to employees were issued this return would be $420,000,000, based on the $150 sale price. Presently outstanding convertible bonds were sold in 1941 to the extent of $234,000,000, which has since been reduced to $62,300,000 through conversions at rate of $140 a share.

Divergent Trends in Merchandising Stores . . . Department Stores Mail Orders?

(*Continued from page* 699) -

stock ahead of the common stock. May Department Stores for current fiscal year should show at least $8 per common share, and net working capital of this company on January 31, last, was approximately $51 million with total funded debt approximately $3 million and $15 million of preferred stock ahead of the common. Earnings for six months ended July 31, 1946, amounted to $8,927,000 equal to $3.51 a common share, an increase of 250 per cent over like 1945 period.

Earnings of National Department Stores for 1946 are estimated at between $5 and $6 per share. Net working capital of this company exceeded $17 million on January 31, 1946. Company has no preferred stock or funded debt. Earnings of J. C. Penney Co. for 1946 are estimated at approximately $5 per share. Net working capital of this company exceeded $84 million at close of 1945 and company had no preferred stock or funded debt outstanding.

Mail Order Companies

With increasing supplies of merchandise available, sales of the mail order companies are continuing at record levels, with profit margins maintained, resulting in much higher profits, with the added factor of lower taxes con-

tributing handsomely to increased profits. Sales of Sears, Roebuck, Montgomery Ward and Spiegel for July, 1946, increased 64.7 per cent over July, 1945, and for seven months ended July, 1946, the increase was 48.5 per cent over like period of 1945. Sears, Roebuck & Co. reported sales for twenty-four weeks ended July 16, 1946, of $638,909,023, an increase of $218,376,102 over corresponding period of 1945, and net income of $38,639,653 for the period, equal to $1.64 a share on common stock comparing with $13,697,361 or 58 cents a common share in like period of preceding year. Financial condition at close of last fiscal year was strong, net current assets exceeding $256 million and company had no funded debt or preferred stock outstanding. Montgomery Ward & Co. reported sales for the seven months ended July 31, last in excess of $446 million as compared with $310 million in like period of 1945. Net income for five months ended June 30, 1946, was $23,322,369 equal to $4.36 a common share. Net current assets on January 31, 1946, exceeded $240 million and company had no funded debt.

Volume of mail order sales should continue to expand with more plentiful supplies, especially the larger items of household equipment such as radios, ranges and other large appliances. Existing sales records are being set despite shortage of these and other items and when these shortage items become available in quantity, increased sales should result.

Variety Chains

Sales of the leading variety chains for July, 1946, increased 13.6 per cent over July, 1945, and for seven months ended July, 1946, increased 11.4 per cent over the like period of the preceding year. F. W. Woolworth Co. reported sales for seven months ended July 31, 1946, in excess of $279 million, an increase of 11.6 per cent over corresponding period of 1945. Net current assets at close of last fiscal year were in excess of $105 million, as against total debt of $22 million. Company has no preferred stock. Sales of S. S. Kresge for seven months ended July 31, last, exceeded $124 million, an increase of 7 per cent over like 1945 period and earnings for 1946 are estimated at approximately $4 per common share. Net working capital of this company exceeded $58 million and company had no preferred stock, and sole funded debt consisted of slightly in excess of $1 million. W. T. Grant Co. reported sales of $107 million for seven months ended July 31, last, an increase of 15.2 per cent over like period of 1945 and earnings of this company are estimated at in excess of $4 per common share. Net working capital on January 31, last, exceeded $39 million, funded debt was approximately $5 million and outstanding preferred stock amounted to $15 million.

Up-to-the-Minute Evaluation of Motors and Motor Accessories

(*Continued from page* 693)

cing of automobile sales to fifteen months also will check demand for cars especially in the middle income group. Higher prices on autos probably may have the effect of diminishing the habit of buying a new car every year. Then, the public has waited so long for cars to be produced that they may not mind waiting a little longer for new designs to appear. Finally, the total business picture may change and with it the entire structure of supposed demand for automobiles.

Executives in the industry think that the current backlog of orders for passenger cars is exaggerated, and that the huge orders on dealers' books contain many duplications. The reason for this is that a buyer places his order with several dealers, counting on one to fill the order and cancelling the others. Therefore orders placed with manufacturers by dealers seem out of proportion to actual demand. Executives also fear that when the first flush of buying encounters rolling production, the rush will subside and a buyers' market will prevail. Furthermore, if labor succeeds in exacting another wage increase, retail prices of autos will have to go up, and manufacturers may find themselves priced out of a market.

If the demand picture is not as rosy as the dream of eager consumers snatching at cars right off assembly lines, then manufacturers face the problem of excess capacity in the not so distant future. Before the war the automobile industry had a capacity of around 5,000,000 passenger cars; but plant expansion and entry of new firms probably has raised the figure to nearly 7,000,000. The increase in capacity has resulted chiefly from the revival and expansion of such units as Graham-Paige and Willys-Overland, with aggressive

programs to compete in the passenger car field, and the emergence of new companies as Kaiser - Frazer, Crosley, and Tucker. The latter two are concentrating on small, low-priced, and economical autos for which good sized market exists. In this respect they will have the jump on Ford and Chevrolet which are designing lightweight low-priced cars to be introduced in 1947. Other manufacturers, too, are reported to be working on such types. The prospects are that competition will be intensified next year with greater emphasis on price. What the resulting demand may be is anybody's guess, but that it will be of the order of 6,000,000 passenger cars is to be doubted.

Around the World

(*Continued from page* 688)

lease and UNRRA exports) are running at the annual rate of nearly $350 million or about nine times as much as they were in the 1936-39 period. Because of the flood of goods brought from abroad, domestic industries, which have to cope with the shortages of raw materials and the rising wage rates, have been slow in getting in production. At any rate, it is rather odd to read that the Chinese industrialists are protesting heavy imports of "cheap foreign goods," even though these "cheap foreign goods" are superior to the Chinese domestic product.

The higher exchange rate set for the U. S. dollar is expected to check somewhat the heavy imports and at the same time to stimulate certain Chinese exports. Also it is hoped that the higher exchange rate will encourage the overseas Chinese to resume sending money remittances which before the war played an important part in the Chinese balance of international payments.

Reconstruction Progressing in France

The second anniversary of the liberation of Paris finds France in the midst of vigorous economic revival. Most of the ports have been restored at least to some extent. All railway lines are now functioning, although the rolling stock available is considerably smaller than before the war. Overall industrial output is about 80 per cent of the pre-war level. Moreover, some industries, such as textiles, glass, coal, and chemicals, have reached or exceeded the 1938 levels. A good harvest is expected this year. More food is available, and with hotels and restaurant opening, the French are making plans for a big influx of tourists next year.

Less encouraging has been the progress made in restoring the balance in France's international payments. At best, the exports will total about $600 million in 1946, as against imports that will probably aggregate around $2,000 million. The balance will have to be paid by drawing on French gold and foreign exchange holdings, by selling foreign securities of the French nationals, and by spending the proceeds of loans. In this connection, it has been recently reported that the last American credit of $650 million has been practically exhausted for the purchases of American machinery, transportation equipment, and raw materials. France has already applied informally for a loan of $500 million from the International Bank for Reconstruction and Development. In order to build up the exports, M. Francois de Menthon, Minister of National Economy, stated recently that about 90 per cent of the French automobile production and an equally high percentage of the output of high-grade textiles, fine wines, and perfumery will be reserved for export at the expense of the domestic market.

Despite all the progress made, despite more goods available from increased production at home and increased imports, prices are still spiraling upward. The Government has been forced to raise price ceilings and in general the spread between the controlled and black market prices has narrowed. The main factor contributing to the continued creation of purchasing power is the heavy deficit in Government finances. As a matter of fact, the debt will have doubled by the end of this year since the liberation; it will amount to about 2 trillion francs. Additional purchasing power which will press against the available goods, will result from the increase in wage rate (on an average 18 per cent) which the Government was forced recently to accede to.

Trade Begins to Flow Between Japan and the United States

The value of U. S. imports from Japan last May was reported to have reached $15 million, or practically the average monthly level in the 1936-39 period. The present prices, of course, are about twice as high. Consid-

erable expansion is expected during the next few months, when in addition to raw silk and a few specialties, Japan will begin to send us more general cargoes. At the same time preparations are being made for the resumption of Japanese exports to the neighboring countries; these exports will consist chiefly of textile goods made from American cotton, electrical appliances and the simpler manufactures.

Although our airforce did a good job in knocking out key Japanese industries during the last few months of the war, the industrial capacity left undamaged is—according to the Japanese themselves — more than sufficient not only to take care of domestic needs, but to produce considerable surpluses for export as well. For example, in the case of aluminum industry which was not too seriously cut down by bomb damage, the available capacity is around 100,000 tons a year, compared with the prewar domestic consuming capacity of aluminum products of not much more than 10,000 tons. Similar excess capacity has been reported in the machine tool industry, basic chemicals industries, certain textile and a number of other lines. Given the necessary raw materials and power fuel, Japanese production could be quickly stepped up above the present level, particularly if the efficiency of labor is raised by providing more and cheaper food. The available coal is sufficient for only about one-third of normal requirements; it has been sharply reduced because of the lack of miners and the drop in imports.

All this indicates that the rehabilitation of Japan will probably proceed at a much faster rate than that of Germany. Unlike Germany where vast internal trade is disrupted by the zonal boundaries, Japan's economy has been pretty much preserved as a unit—and since there is only one master, Japan has not been torn apart by opposing political and economic idealogies. Moreover, the American occupation authorities have not shut themselves off and have been ready to listen to Japanese advice where the good of the country has required it.

For Profit and Income

(*Continued from page* 709)

when domestic and export demands are still so large in relation to supply that OPA is hard-pressed to limit price rises, when order backlogs are still rising, and when the Help-Wanted advertisements greatly exceed the Positions-Wanted advertisements. In two of the most vital fields—housing and automobiles — we have so far seen only a small start on postwar activity. In autos, this is another year in which more cars will be scrapped than will be built. So, if the market is anticipating deflation, all this column can say is that it is apparently looking for trouble further ahead than it has ever done before in time of peace.

Some Examples

Corporate managements today are not increasing dividends for any devious psychological or strategic reason. Where they are being raised it is because current earnings are so large that any other course could not be justified. In many more cases than not, the boosted rates still leave the ratio of dividends to earnings more conservative than it was in such prewar years as 1936 and 1937. A few recent examples of liberalized dividends include Abbott Laboratories, Black & Decker, J. C. Penney, South Porto Rico Sugar, Minnesota Mining & Manufacturing, Sutherland Paper, Goodrich Tire, Columbia Pictures, Warner Brothers, Bond Stores, Union Bag & Paper, Homestake Mining, McKesson & Robbins, National Sugar, and Interstate Department Stores. We look for much more of this in the months just ahead.

Melville Shoe

In shoes, this company operates much as does Bond Stores in men's clothing; that is, it both manufactures and retails the product. If both operations are efficient, as they are in this case, the set-up (eliminating the middle-man) is the ultimate in economy. Until hit by high taxes and shoe-rationing during the war, Melville had an excellent long-term record, qualifying the stock for investment portfolios as a stable-income issue with potentiality for some long - term growth. At the present time earnings are running over double year-ago figures. As split 2-for-1, effective last week, the stock will henceforth carry a $1.60 annual dividend, equivalent to $3.20 on the old stock, against $2 paid for some time. On this basis, as we write, the current yield is

about 6.44%. It looks good to our eyes, considering the quality of the issue. The only threats lie in either (1) inability to obtain sufficient hides for high produce and (2) the possibility of a collapse in commodities at a future date causing inventory loss.

Profit Margins

Where volume is notably high, profit margins in most cases are excellent, despite higher wages and OPA price control. An example, far from unique, is B. F. Goodrich. In the six months to June 30 it netted $8.74 a share, against $3.52 for the like period of 1945. It netted more in a half-year than most people expected for the peak postwar full year. In many cases, profits for the third quarter are going to look almost "scandalously" high, embarrasing some who have complained too loudly about higher costs and frozen prizes. Big volume works wonders.

Factors Dominating Aircrafts Outlook

(*Continued from page* 694)

need 400 landing strips to handle 40,000 planes, but that only a dozen such facilities exist at present. Inadequate means of handling the increasing number of private planes, therefore, may limit future purchases as buyers see the difficulties in the way of using their craft. Even before the war 80% of all those who bought personal planes sold them within a year principally because of lack of suitable landing fields according to a study made on the subject made by the Aircraft Industries Association. The need for more facilities to meet the expanding use of personal planes has been recognized in Congress where an airport bill has been in the laps of Congressional committees for several months, and it is possible that an appropriation will be forthcoming for $500,000,000 to assist in development of new airports and navigating devices. Moreover, some of the biggest oil companies, like Socony-Vacuum, Shell, Gulf Oil, and Standard of New Jersey, have been actively stimulating airport construction and services.

Another obstacle to continuation of the current sellers' market in private planes is that such craft are too high priced for a mass market. A two-place ship costs $2,200 and a four-place family model is priced at $4,000. Besides the original purchase price, operating costs are extremely high; the average cost of running a small plane 200 hours for a year amounting to over $1,000. Consequently, only high income groups can afford to buy personal planes and the great number of middle income individuals are excluded from ownership of such craft. Finally, the sellers' market automatically will come to an end by the mere process of rolling production. It has been observed elsewhere in one instance after another that when goods begin to come on a market, buyers turn more discriminating and tend to withhold purchases pending clarification of price trends and production of new models.

Military Orders to Rise

Production of military planes, the backbone of the industry, rests on future national defense policy. If the program advocated by the Air Coordinating Committee is adopted by Congress, the rate of orders for military craft will be stepped up; since the plan calls for purchase of from 3,000 to 6,000 of such planes yearly compared with current appropriations for 2,100 planes. This increase would mean additional business for the industry ranging from $350,000,000 to $1,000,000,000 a year. These figures do not include appropriations for development and experimental work and for spare parts. Indicative of the size of the latter business is the $10,000,000 order for spare parts which Beech Aircraft received from the Navy in July. Experimental work for the armed forces in such fields as guided missiles, rocket and jet turbine propulsion, and supersonic aircraft will so revolutionize the industry that aircraft makers will be kept busy for years to come on these new developments. Even application

of atomic energy to aircraft propulsion is to be studied by the Fairchild Engine & Airplane Corporation. Meanwhile, radical designs in aircraft such as the Northrop "Flying Wing," a bat-like plane without tails or fuselage, and a score of other new models will keep the industry in the throes of healthy change.

A large potential foreign market also exists for our planes. British Overseas Airways has the Lockheed "Constellation" in use and recently has placed orders for six Boeing "Stratocruisers." French, Dutch, Swedish and South American airlines, too, have placed orders for transports with various American manufacturers. But State Department red tape seems to be hindering cultivation of South American markets for our aircraft; and, owing to this circumstance, British, French, Spanish, and Belgian manufacturers of airplanes are making headway in that continent at our expense. Once State Department blundering in this direction is eliminated, however, trade in aircraft in South America should leap, as airlines there have expressed a definite preference for American models.

With Imports Near 15-Year High

(*Continued from page* 683)

tials for two-way trade with us, Great Britain of course is straining every nerve to lure American dollars with products from her factories. Currently the tide of woolens, chinaware, chemicals, machinery and liquors from this source is mounting. To Sweden and Norway we turn for woodpulp, fish and even machinery. Italy is shipping us wines, cheese and the beautiful leather goods for which it is famous, for of all war-torn Continental countries this one has made fastest progress towards reconversion normalcy. Hard pressed France has begun to ship us wines and fine china. And from Belgium and Palestine are coming the bulk of diamonds which earlier in our article we mentioned as a major item in our import roster. Swiss watches and parts are headed for our shores in a steady stream, and even from the American zone in Germany has started a trickle of toys, once a major factor in her exports to us.

Due to improvements in transportation, especially by air, foreign perishables of many descriptions have now begun to find a ready market in the United States. Indeed, by the use of airplanes, two-way trade of manifold description is reaching new peaks. Total air imports in April reached the surprising value of about $4.6 million, of which precious stones accounted for $1.5 million, and with watches, furs and leather goods contributing sizable amounts.

The big problem facing our economy, as hinted earlier in our discussion, will arise when our domestic production begins to outstrip demand at home and our exports to foreign nations expand rapidly. At this point, deficiencies of raw materials may become less acute and our purchases of foreign manufactured goods must take up the lag to avoid international bankruptcies. Hence the age-old policies relating to tariffs must be revised, and in the process Washington will have its hands full with political and social considerations.

Record Production

(*Continued from page* 680)

mistakable widespread dearth of wearing apparel, particularly for men, The Census Bureau reports cotton consumption for the twelve months ended July 31 off to 9.16 million bales of lint from 9.57 a year earlier; while consumption of linters fell to about 1.05 million bales from 1.48 in the corresponding year earlier period. Fewer cotton spindles also were active in July of this year than in the similar month of 1945. One reason which the trade ascribes to this is the price situation and to correct this the OPA this past week raised ceilings on cotton textiles an average of 16 per cent at the manufacturing level. Here, then, is a case where price considerations have apparently been the important obstacle to full production.

Other illustrations may be found of cases where particular factors obstructing output have been studied by trade and governmental authorities and remedial measures taken to remove the difficulties. Lumber and lumber products and non-ferrous metals might be mentioned because of their fundamental nature as they effect other industries, notably the building trades and the manufacturers of electrical products and household appliances.

There can be no question that there is an unprecedented demand for goods backed by growing public purchasing power and accumulated wartime savings. Nevertheless, because of strikes and uneconomic price discrepancies the coordination of various branches of our industrial organization were thrown out of gear in the closing months of 1945 and in the early part of this year with

the result that production potentials in most industries could not be realized. To be sure, some of the lighter industries such as certain chemical groups, shoe manufacturers and drug and pharmaceutical producers have gone forward. But important durable goods makers — automobiles, household equipment, industrial and agricultural machinery, railroad equipment and electrical products—have been handicapped by inadequate supplies of steel and copper. In fact, there simply was not enough capacity in the sheet and strip steel mills, nor in the copper mines, to meet the swollen demands of record peacetime requirements. For the most part of 1946, the basically important metal fabricating industries were unable to get enough of these materials, nor for that matter of lead and zinc, to attain the volumes of production justified by consumer demand. However, the encouraging rise in industrial production in June does seem to indicate that the combined attention of business leaders and Government departments to these problems is beginning to bear fruit, and assuming no recurrence of widespread labor disturbances and a more realistic attitude toward pricing problems the trend should continue upward from this point on gradually embracing a wider list of industries as it progresses. In general, it might be said that the so-called heavy industries are best situated to participate in any such revival since they have most severely felt the impact of these maladjustments while at the same time facing the greatest pent-up demands.

Where Do We Stand In The Market Cycle?

(*Continued from page* 677)

Besides the evidence of relatively heavy volume on the downside, the Magazine of Wall Street Support Indicators also has shown deterioration of the stock market's price structure. As the chart in the A. T. Miller article portrays, selling pressure had been overtaking buying power since the end of May; and the two lines crossed on July 15 with the stock supply line advancing above the stock demand line for the first time since November, 1943. One cannot say from this action whether a bear market or an intermediate decline is indicated. Such a crossing of the two lines on March 20, 1937, did precede the ensuing dip in prices till June and another crossing on August 19, 1937, pointed to the sharp collapse following that date. All that one can say at this time is that the selling pressure curve still is far above the buying power line, and that until the two narrow a buying point will not appear.

Bearish implication, however,

is to be read into the action of the Magazine of Wall Street 100 Low Priced Stocks versus the 100 High Priced Stocks. One of the significant technical indications of a bull market top is over-speculation in low-priced stocks. This means that indiscriminate public buying predominates over informed investment purchases, and that while the latter class is selling the former is coming into the market in greater numbers. Such was the case in the first half of 1937; and the accompanying chart shows that while the High Priced Stock line hardly made any progress, the Low Priced line rose sharply to make for a widened gap between the two curves Speculation in low priced stocks has featured the 1942-46 bull market to an exceptional degree, as manifested by the rise in the Low Priced index above the High Priced index after February, 1943. The disparity between the curves grew noticeably subsequent to the midsummer of 1944 and attained its greatest width in February, 1946. Since that date the Low Priced curve has levelled off markedly, suggesting resistance to a further rise and probable ex-

Whether this will prove to be so will depend on the action of a probably rally from whatever low point may be reached on the current decline. If we really are in a bear market, then a subsequent upward move will fail to reach or surpass the May-June highs and will become merely the primary rally in the first stage of a downtrend. If, however, the rally extends to the point where the 1946 tops are penetrated, then the present decline will have turned out to be but an intermediate corrective measure. A test of whether the present outbreak is to be the first leg of a bear market may come soon. A support area around 160 in the industrials was established in July, 1945, and penetration of this area would throw the weight of argument in favor of the bears.

Another point supporting the bear side is that the main upward trend from May, 1942, to May, 1946, has been broken by the market's recent drop. Other examples of initial slumps breaking a primary trend were the October, 1929, and April, 1937, downturns, the first a violent crash and the second a gentle decline.

To summarize our viewpoint on the market: most of the technical indicators, if not convincingly bearish, at least manifest a seriously weakened price structure. The weight of evidence is on the bear side, but a good case may be argued for the existence of an intermediate correction. Definite proof one way or the other will be forthcoming by the market's performance in the next few months. Fundamentally, the immediate outlook is for rising production and for good third quarter earnings. But the market may be looking beyond the hill and discounting a change for the worse. Besides, no one knows what the confusing international picture portends in the way of another conflict. This factor in conjunction with menacing labor strife, materials shortages, low labor productivity, and dislocations of profit margins due to cost-selling price distortions all have conspired to induce profit taking. Thus the recent decline has not been without its logic.

Answers to Inquiries

(*Continued from page* 710)

guess what proportion of property adjustments actually will be prescribed by the Commission in its final order.

We recommend retention of your holdings of this stock, as the earning trend is rising and the dividend yield of about 5½% at current market is much higher than can be received by securities of similar